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A big contract *for their industrial painting firm set off large-scale hiring by J. Mark and Linda Erler, flanked here by employees. The Erlers' experiences and those of other owners and managers illustrate many of the do's and don'ts of hiring.* *Cover Story, Page 18.*

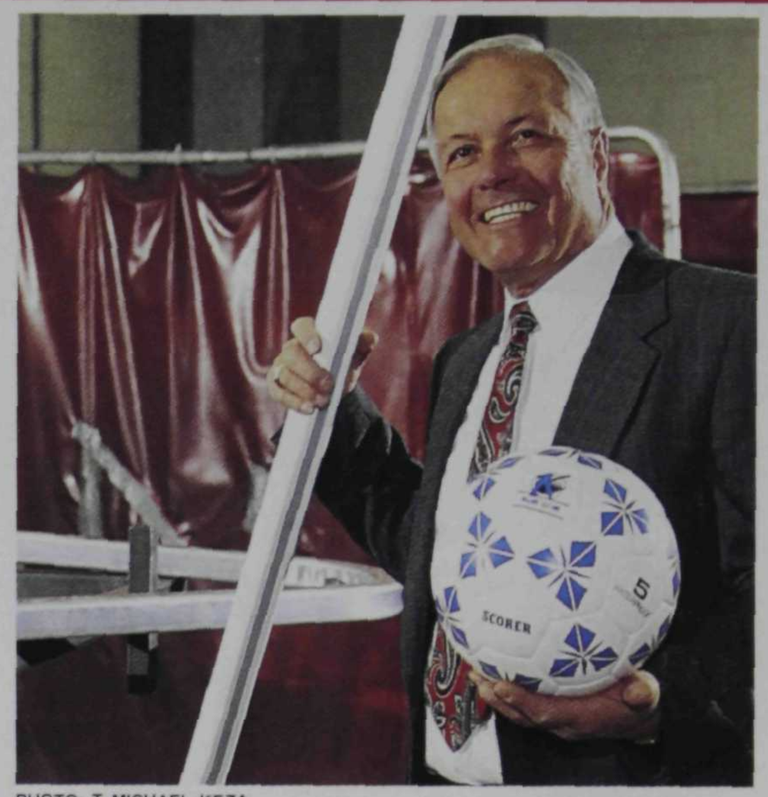


PHOTO: T. MICHAEL KEZA

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PHOTO: T. MICHAEL KEZA

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Cover Design and Illustration: Georgia Leigh McDonald

Nation's Business (ISSN 0028-047X) is published monthly at 1615 H Street, N.W., Washington, D.C. 20062-2000. Tel. (202) 463-5650 (editorial). Advertising sales *headquarters: 711 Third Ave., New York, N.Y. 10017. Tel. (212) 370-1440.* *Copyright* © 1996 by the United States Chamber of Commerce. All rights reserved. Subscription prices (United States and possessions): one year, $22; two years, $35; three years, $46. For Canadian and other foreign subscriptions, add $20 per year. Second class postage paid at Washington, D.C., and additional mailing offices. Canadian GST Registration #: R131556169. **POSTMASTER:** Send address changes to ***Nation's Business***, 4940 Nicholson Court, Kensington, Md. 20895. **To inquire about your subscription, to subscribe, or to make a change of address, please call 1-800-638-6582, or in Maryland, 1-800-352-1450.** ***Photocopy Permission:*** Where necessary, permission is granted by the copyright owner for those registered with the Copyright Clearance Center (CCC), 222 Rosewood Drive, Danvers, Mass. 01923, to photocopy any article herein for a flat fee of $1.50 per copy of each article. Send payment to the CCC. Copying without express permission of ***Nation's Business*** is prohibited. Address requests for reprints to ***Nation's Business*** Reprints, 1615 H Street, N.W., Washington, D.C. 20062-2000, or call 1-800-692-4000.

Printed in the U.S.A.

Editor's Note

Minimizing The Risk



One of the biggest risks employers take is in filling key positions. And for many small companies—where often every employee is vital to the smooth operation of the business—that means each hiring decision is fraught with peril.

Employers can, however, minimize their chances of making a wrong move. The purpose of this month's cover story, written by Senior Editor Michael Barrier, is to explain how.

Even if you think you know everything about hiring, chances are you'll glean some helpful hints from this article. It begins on Page 18.

As in any election year—but especially those years in which the presidency or control of Congress is being determined—statements by politicians frequently become suspect. To help small-business people sort out the rhetoric, Senior Editor Jim Worsham provides historical perspective and insight on what's at stake on Capitol Hill for entrepreneurs, beginning on Page 28.

No small-business owner should miss this piece, particularly with the political season shifting into high gear.



PHOTO: T. MICHAEL KEZA

Linda Snyder and her husband, Brad, in the photo at left, are among the small-business people who know well the advantages of networking company computers—and the problems that can be encountered when a firm takes this route. If you haven't linked your computers, or are having problems since you did, see "The Well-Tailored Computer Network," by Senior Writer Tim McCollum. It starts on Page 37.

Our special report on insurance, beginning on Page 50, examines a way that some small companies have found to reduce their costs for liability coverage. Take a look; maybe you can cut yours, too.

Mary Y. McElveen
Editor

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Letters

No Troubled Waters For This Employer

I noted with interest your April cover story, "Help Wanted Desperately," about efforts by small businesses to find and keep good entry-level workers.

Though our family-owned business runs all year, the majority of our staff is in place from April through October, when we have about 130 employees. For this reason, we do major recruiting every winter in local colleges and high schools. With 21 years in business, our reputation in Baltimore is of having the most well-spoken, efficient, and service-oriented young employees around.

I tried a new approach this year and wrote a letter to guidance counselors at public and private high schools. The letter, which was followed up by a phone call, introduced our company and talked about our record of excellence as an employer and the fact that many staff members stay with us through college and graduate



school. I also discussed the strong foundation in working values we provide.

The response was tremendous, and the quality of applicants was superior.

Cameron Kane
Director of Sales, Promotions, and Tours
Ed Kane's Water Taxi
Baltimore

Misplacing The Blame?

I must take issue with some of the assumptions in your April cover story, "Help Wanted Desperately."

The quote by economist Diane Swonk that "Generation X doesn't have ... the skills" is only a popular excuse for failed management practices. As a Generation Xer, I find that we have the skills needed but that we think differently than past generations—we tend to be more independent and to thrive in environments in which we are allowed to use our creativity to solve problems.

Also, almost all personnel need some training to be effective in a new position. If you find that your people are failing, check your training programs and stop blaming your workers for your own failures.

As for business owners' complaints that Generation Xers are not "as motivated or as dependable" as previous generations, Generation Xers tend to be pragmatic in this time of massive corporate layoffs. Corporate America, in the search to raise the stock price another dollar, has helped to create a climate of mutual distrust and fear between management and workers. This type of work environment does not foster motivation or dependability.

Finally, while there may be labor shortages in some cities, if your company is having a hard time finding new workers to replace ones who have left, ask yourself one question: Why did they leave in the first place?

James T. Weiner
Winston-Salem, N.C.

Electronic Mail Is Affordable And Reliable

I just read the May issue and noticed the article "The Case For E-mail" and the letter to the editor about e-mail's limitations.

My company, which represents the Panama Bureau of Shipping, Inc., is now using e-mail via the Internet and CompuServe for routine correspondence with our offices in Panama, the United Kingdom, and Hong Kong. We find it to be very affordable and reliable.

Our offices in Panama and the United Kingdom have even set up voice links via the Internet and have been using them successfully for a few months.

Also, with e-mail I can be as wordy as I wish without the extra cost incurred when using faxes, which was our primary communication tool before the switch. I have found my fax bill has dropped by at least $100 a month.

Michael Telschow; Owner
Aquarian Marine Consultants
South Houston, Texas

Security Precautions Are A Pre-emptive Strike

One factor that contributed to the success that companies like Caterpillar Inc. and the Detroit Newspaper Agency had in coping with recent labor strikes ["Labor Comes Alive," February] was contingency planning. Taking steps to ensure the protection of people, property, and facilities during the strikes allowed the companies to maintain operations.



PHOTO: ©REBECCA COOK—REUTERS

A burning car *at the Detroit newspapers' distribution center points up the need for addressing security before a strike.*

As reported in the April *Nation's Business,* 51 percent of those responding to the Where I Stand poll in the February issue answered "No" to the question "Could a strike against your firm be effective?" The question did not indicate what degree of effectiveness, but certainly all strikes are disabling to some extent.

Addressing your security concerns well in advance of possible union activity is the best hedge against the crippling effects of a strike.

Charles F. Vance
President
Vance International, Inc.
Oakton, Va.

Cluing In Employees On Company Economics

Regarding "The Facts Behind The Wage Debate" [April], no business person with even a modicum of intelligence thinks he can have happy, productive workers if they are underpaid. Unhappy workers turn out substandard work, and the amount of additional work required to remedy that can, by itself, eat up a big chunk of your profits.

Many employees, however, don't have a clue about how payroll and its related costs, as a percentage of the operating budget, affect a business.

We have found that sitting down with our employees monthly and going over shop productivity vs. wages, then relating that to the revenue that a product or service brings in, makes a big difference in how our employees view wages. When we do this, we are also upfront about the company officers' salaries as a percentage of total payroll costs.

When the employees understand that wage costs must bear a relationship to total sales, and why a decrease in productivity or an increase in benefit costs affects not just their individual paychecks but the company's viability as a whole, they are more than willing to help management do what is necessary to maintain a healthy relationship between production costs and gross income.

In addition, the employees themselves often come up with ways to reduce costs in other areas so that there is more money available for raises.

Naturally, if you have grossly overcompensated upper management or owners, this will skew the whole picture. But I get tired of every business owner being viewed as getting rich at the expense of the employees, which is the picture the unions like to present.

In most cases, the owners of small to midsize firms are a lot more likely to be undercompensated for their risks and headaches than to be overcompensated.

Rebecca Lee Baisch
President
Engine Weld and Machine Co. Inc.
Idaho Falls, Idaho

Clarification

"End Of The Line For The ICC" [March] indicated that railroad workers may not strike or enter into labor contracts. Under the Railway Labor Act, workers and unions and the management of railroads and airlines must go through a potentially lengthy process monitored by the National Mediation Board before any action, such as a strike or lockout, can occur.

The process involves direct bargaining, possibly mediation, arbitration, and the chance that the president or Congress might block any action or that a settlement might be imposed by law.

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BUSINESS COSTS

Final Health-Care Bill Could Be Good Or Bad

From the perspective of entrepreneurs, the consensus version of the fundamentally similar health-care bills overwhelmingly passed by the House and the Senate recently could range in its effect from quite positive to very negative.

Precisely where on the good-bad continuum the compromise measure falls will depend on the provisions included by the handful of representatives and senators responsible for reconciling differences in the bills. The House bill was passed 267-151 on March 28, and the Senate bill was passed unanimously on April 23.

Both measures share the goal of guaranteeing that workers will not lose health coverage if they leave or lose their jobs. Both also would generally restrict insurers from denying coverage to enrollees based on pre-existing health problems.

Moreover, both would increase the health-insurance tax deduction for the self-employed and unincorporated small businesses from the current 30 percent. The House bill would raise the deduction in stages to 50 percent in 2003, while the Senate measure would increase it gradually to 80 percent in 2006.

The differences between the bills that are of greatest importance to small businesses concern insurance pools and mandates on mental-health insurance.

The House bill would exempt voluntary alliances of small companies from benefit mandates contained in state laws. Currently, only the self-insured—typically medium-sized and large corporations—are exempt from the state mandates.

Supporters of the exemption for purchasing pools say it would reduce premium prices, thereby allowing more small employers to afford employee coverage. Opponents say purchasing pools have a mediocre track record. "There's a case to be made that [pooling is] not good for consumers," says Laura Thevenot, a spokeswoman for the Health Insurance Association of America, a Washington, D.C., group that represents insurers.

The Senate bill passed with an amendment by Sen. Pete V. Domenici, R-N.M., that was fought tooth and nail on the floor by bill sponsors Edward M. Kennedy, D-Mass., and Nancy Kassebaum, R-Kan. The amendment would require that insurance policies provide equal coverage for mental and physical maladies. Currently, most policies sharply limit benefits payable for treatment of mental illnesses.

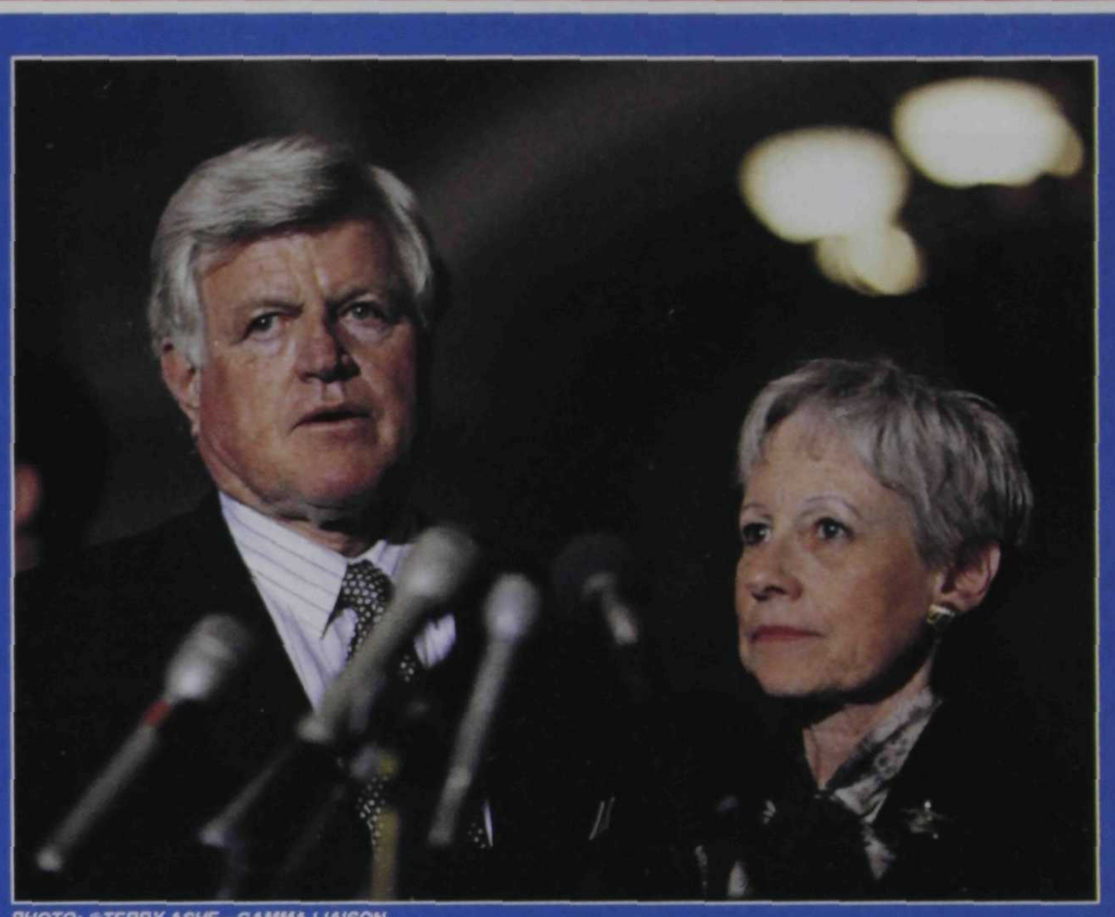


PHOTO: ©TERRY ASHE—GAMMA LIAISON

The Senate-passed *health-care bill sponsored by Edward M. Kennedy, D-Mass., and Nancy Kassebaum, R-Kan., contains an insurance-portability provision for workers.*

Domenici's amendment, adopted by voice vote after a procedural move to kill it failed, 30-68, would increase business's premium costs by 8 to 11 percent, according to the Association of Private Pension and Welfare Plans, based in Washington, D.C.

"It's vague, it's ill-defined, and it's the worst kind of employer mandate," says Mark Ugoretz, president of the ERISA Industry Committee, an organization that lobbies on behalf of large companies on issues related to the federal Employee Retirement Income Security Act.

It's uncertain when—or even if—these and other differences will be resolved by the conference committee.

—Albert G. Holzinger

SMALL BUSINESS ADMINISTRATION

Small-Business Standouts To Receive Recognition

Outstanding small-business people and several friends of small business will be recognized by the U.S. Small Business Administration in Washington, D.C., during the 33rd annual celebration of Small Business Week, June 2-8.

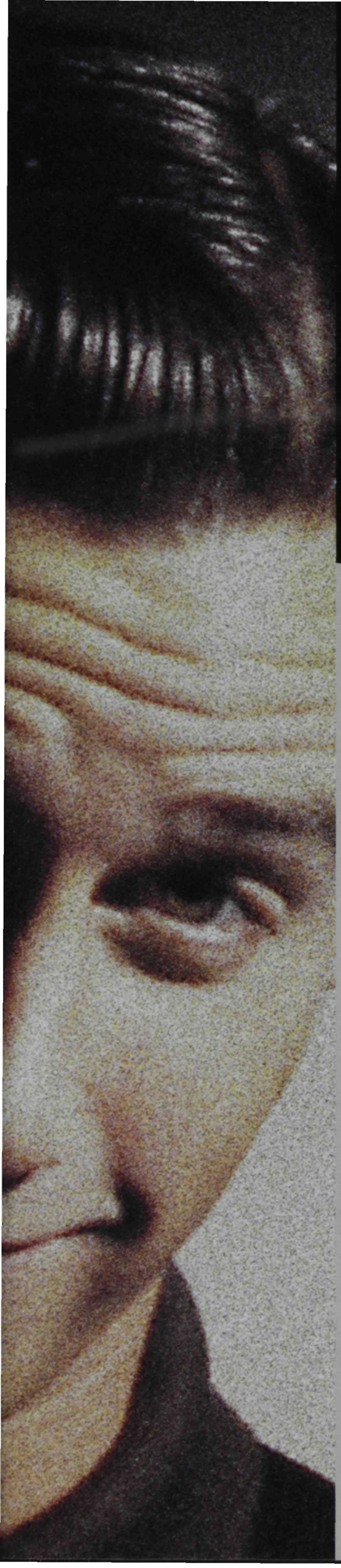
Based on their personal achievements and their contributions to the nation's economy, one entrepreneur is named from each state, the District of Columbia, Puerto Rico/Virgin Islands, and Guam. The National Small-Business Person of the Year, chosen from this group, will also be announced during the week.

Advocates of small business and winners of special awards also will be recognized. Here are the small-business advocates of the year: Accountant—Sandra Abalos, Phoenix; Women in Business—Judith Framan, Corrales, N.M.; Media—James Madore, Buffalo, N.Y.; Financial Services—Peggy Smith, Tulsa, Okla.; Veteran—Gordon Kuivanen, Emmetsburg, Iowa; Minority—Carl Bailey, Philadelphia.

Besides the state small-business awards, three special awards for business people will be given: Exporter of the Year—Tammy Flor, Chula Vista, Calif.; Young Entrepreneur of the Year—Peter Mendoza Jr., Riverside, Calif.; Entrepreneurial Success—Donald Dye, Carlsbad, Calif.

To request a nomination for next year's awards or for more information on Small Business Week, write to: Office of Information, Office of Advocacy, Mail Code 3114, U.S. Small Business Administration, Washington, D.C. 20415, or call (202) 205-6531. Nominations for 1997 awards are due by December.

—Roberta Maynard



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Entrepreneur's Notebook

By Dean Daniel

Winning Promos, Tastefully Done

Any experienced fisherman will tell you that it's not enough to just cast your line. To catch the big one, you need the right bait.

In business, that means effectively conveying your message—be it about your product, service, or price—and angling for your target market. When my seafood-processing company, Miami-based Ryan Foods, Inc., started making conch-fritter batter for cruise ships, we knew it was a concept that could be expanded.

Prepared seafood batters—which limit the work to thawing and then deep-frying—were naturals not only for the cruise-ship industry but also for restaurants and sports bars that have limited preparation space or personnel.

But our unique product line, which now includes breaded seafood, chowders, and specialty foods such as Texas Tornadoes (corn fritters with a jalapeño kick), met with only lukewarm response when it was presented in a standard black-and-white catalog.

Like the catalogs of most businesses, ours gave buyers the basic information they needed; what it lacked was the power to make potential customers visualize the products. In our case, the catalog didn't let them see how good the food looks or imagine how it tastes.

People buy with their eyes. To communicate our message effectively—that our products are delicious, appealing on a plate, and easy to prepare—we needed to grab the customer's attention immediately with our product rather than with words. We hooked onto the idea of a promotional flier or catalog sheet that could be mailed alone or with a cover letter.

Today, our sales top $1.3 million, thanks in large measure to the effectiveness of the fliers that followed that first one. Sales increased roughly 90 percent once we started marketing with four-color sheets. Part of this growth has come from customers who received fliers for products other than the one that prompted their initial inquiry. Most of the time, customers request samples of additional products, and many of those samples turn into sales.

Presentation is what makes our 8½-by-11 sheets effective. Each two-sided sheet features full-page, full-color photos of a product prepared for serving, often with a backdrop of the ingredients in original form. With our corn fritters and Texas Tornadoes, for example, the backdrop is an attractive arrangement of jalapeños, corn on the cob, and blocks of cheddar cheese. In the foreground, prepared fritters are served four different ways.

The message is clear: Here is food that is made from quality ingredients, is easily prepared, and can be attractively served throughout the day. Words, on both the front and the flip sides of the sheets, are kept to a minimum. Buyers get the basics on the product, its advantages, order quantities, and a couple of our other offerings, along with our phone number and address.

If your products lend themselves to a one-page catalog sheet, remember to set the products in the best possible light to make them enticing. Our first sheet featured dark-brown conch fritters and french fries against a brown background. Though it generated enough interest to keep us working on the flier idea, we learned that brown on brown wasn't the best way to highlight our fritters.

Keep in mind what you are selling, and highlight that. The fries in that first sheet were more a distraction than a help. Customers need to notice your product, not related items they purchase from someone else.

Use people only to enhance the message. Unless they contribute to the message—a world-class chef holding a plate of our seafood medley, for example—showcase your products and not the models.

Hire a commercial photographer with experience shooting your kind of product. And don't scrimp on production quality. Customers recognize it and respond. Money spent on high-grade paper, color reproduction, and quality printing comes back to you in customer response. NB



PHOTO:©FRANK ZAGARINO-BLACK STAR

Colorful fliers *with a catchy but clear message helped bring Dean Daniel's seafood-processing company out of its shell.*

Dean Daniel is founder of Ryan Foods, Inc. He prepared this account with Contributing Editor Susan Biddle Jaffe. Readers with insights on starting or running a business are invited to contribute to Entrepreneur's Notebook. Write to: Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000.*

What I Learned

If your catalog is boring, your product will come across as bland, too. What a company needs is an attention grabber.

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Managing Your Small Business

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By Roberta Maynard

RETAILING

With Private Labeling, Breaking In Is Hard To Do

Private labeling—producing goods for large retailers who market the items as their own brand—is not an undertaking for the faint of heart, especially in today's retail climate. That's the opinion of Richard S. Forté, chairman of Forté Cashmere Co., Inc., a family business in South Natick, Mass. About two-thirds of the cashmere sweaters made by Forté are sold under private label by department-store chains and catalog companies; the remaining third, Forté's own brand, are sold in exclusive specialty stores.

Intense competition and changes in retailing make it difficult for small companies to get into private labeling, Forté says. For one thing, it's hard to build relationships with the retailers' buying staffs because of their high turnover.



PHOTO: ©RICK FRIEDMAN—BLACK STAR

Success in private labeling *requires offering something distinctive, says cashmere-sweater manufacturer Richard S. Forté, who sells two-thirds of his products that way.*

And these days, Forté says, managers of large department stores base their decisions on accepting new goods solely on how much of the product they can sell. "You knock on retailers' doors," he says. "If you convince them, they might do a small program for one year, then another the following year. It's a multiyear process of confidence building."

The payoff in private labeling is sales volume. Forté's profit margin for sweaters sold under private label is only half that for his own brand, but the volume is twice that for own-brand sales.

Despite the tough retailing environment, opportunities for private labeling have been increasing, Forté believes. For the past five years, retailers have been trying to build their own store brands to increase profits.

For a small company, the key to success in private labeling is offering something unique, Forté says. His company, for instance, has several decades of experience processing cashmere and has built long-standing relationships with producers in China and elsewhere.

Forté says maintaining his own brand helps him stay close to the market. "We can be a better supplier because we know from selling our own line what works in terms of colors, size scale, and styling," he says.

But establishing personal relationships with large retailers is still difficult, says Forté, who adds that one thing might make the going easier: "I would hope that the pendulum would swing back to large companies being run by merchants, not financial people." ■

INTERNATIONAL TRADE

Arbitration Provisions Save Money And Time

What happens when an overseas provider of goods fails to deliver as agreed or when a receiver of U.S. goods fails to pay? Because of distances and other barriers, these can be thorny, expensive issues.

The best protection for a U.S. company is a custom-crafted arbitration provision inserted in every commercial contract involving an overseas trading partner, advises Jarril F. Kaplan, an attorney in the Snell & Wilmer law firm, in Phoenix.

Resolving a conflict through arbitration is less costly than litigation and significantly less time-consuming—usually no more than two to six months. And whereas judgments of U.S. courts generally are not recognized in foreign countries, more than 100 countries have agreed to enforce arbitration awards made in one another's territories.

The procedure is simple, says Kaplan. The parties design an arbitration provision that satisfies their interests and sense of fairness. The clause names the location of any future arbitration proceeding and the rules that will apply. The governing body whose rules are chosen presides over any disputes.

There are many sources of arbitration rules. The two best-known in the U.S., both in New York City, are the American Arbitration Association, at (212) 484-4000, and the International Chamber of Commerce, at (212) 206-1150.

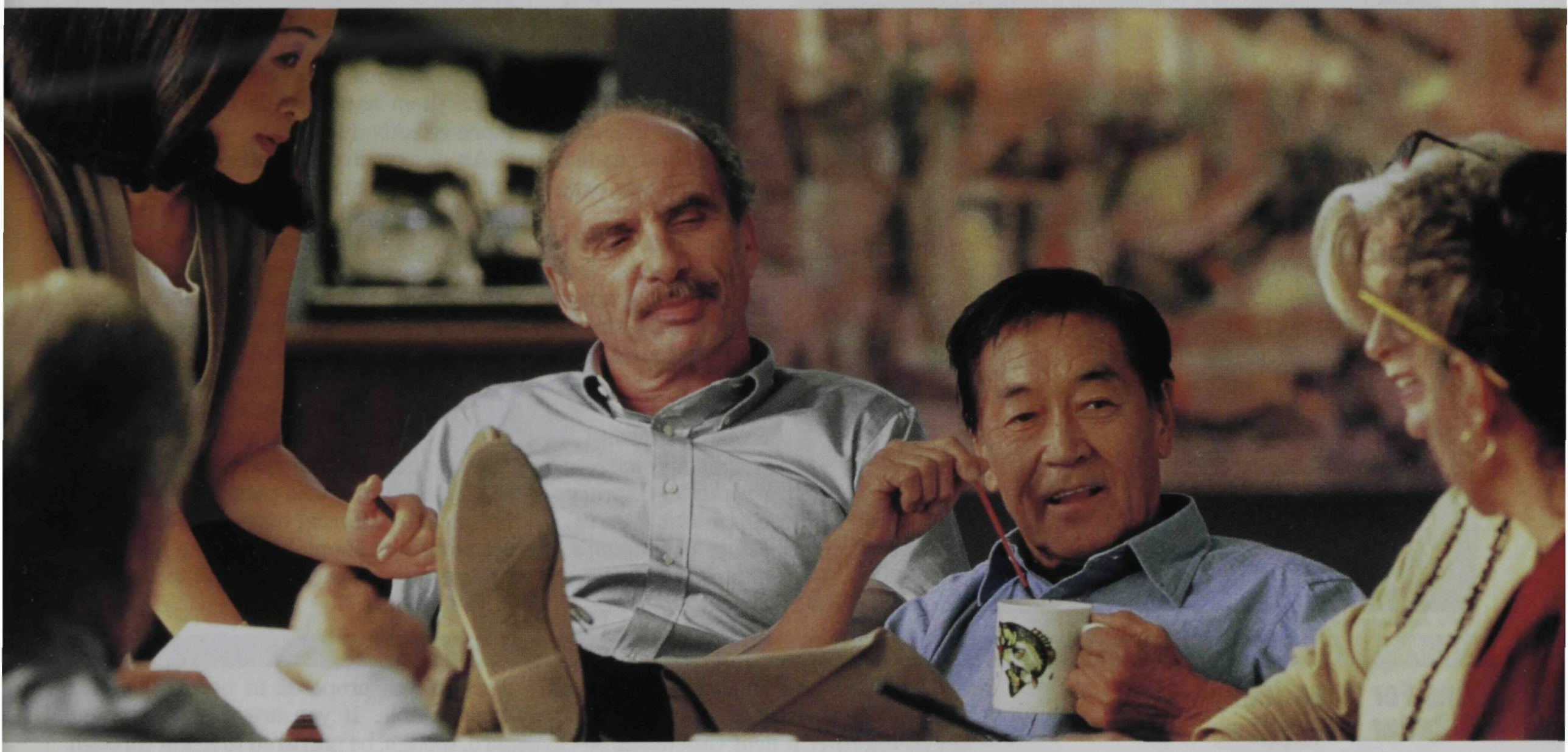
Both offer their rules at no cost; the fees for handling arbitration proceedings vary for these and other such organizations.

The Center for Public Resources, at (212) 949-6490, sells 30 industry-specific sets of rules, each at a cost of $50.

Other sources include the U.N. Commission on International Trade Law Arbitration Rules and the Inter-American Commercial Arbitration Commission. ■

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TRAINING

Meeting Of The Minds Improves Operations

Thom Wellington sensed that the field and office staffs at his company, Wellington Environmental Consulting & Construction, Inc., in St. Louis, weren't communicating as well as they could be. The field people do most of their work at client businesses when offices, including Wellington's, are closed. With so little daily contact between the two staffs, it was difficult to develop cohesiveness.

Wellington's solution was to set up a voluntary, in-house program to promote sharing of information among the 93 employees at the firm. Employees are encouraged to conduct classes in their own areas of expertise before and after working hours, and outside experts are often invited to discuss subjects of interest to employees.

Also, after employees attend an outside training course, they make a presentation to all interested staff members so everyone can benefit from their experiences.

The topics for the classes range from technical matters, such as estimating asbestos-removal costs and testing water, to computer- and management-related subjects, such as getting organized and tips for first-time managers. Some classes are videotaped for future use or to be sent to the firm's two branch offices.

About 10 classes are offered monthly. Employees who attend the most classes each month and those who come up with the best ideas for new classes receive a rugby shirt bearing the logo of the company's program, called Team University.

Wellington says the classes give employees a better understanding of the kind of work each person does. In particular, he says, the office staff members gain a sense of what goes on in the field, which helps them handle calls from customers more effectively.

An unexpected benefit of the program has been the uncovering of new markets for the $5 million firm. As field people began to talk in classes about their on-site experiences, management identified opportunities to sell additional services, including removal of lead and removal and disposal of underground storage tanks.

"I see Team University as an important part of our company goal to become the best, most-respected environmental company in each of the markets we serve," says Wellington, who plans to expand the program by offering more classes. "It also supports our people's desire to learn and progress in their careers and to have fun in the process." ■



PHOTO: ©MARK KATZMAN

Employees conduct *classes for one another to improve communication at Thom Wellington's environmental consulting firm.*

EQUIPMENT LEASING

Tips For Negotiating A Better Deal

In his book *Negotiating Business Equipment Leases,* Richard M. Contino, an attorney and business financial adviser in Rye, N.Y., offers these tips for enhancing your bargaining position.

■ **Use competitive bidding.** Create an environment in which the lessor must compete for your business, even when the transaction amount is small. Ask several companies to bid, and let each know it's a competitive-bidding situation.

■ **Have a backup leasing company.** Nothing creates more leverage than letting the lessor you're negotiating with know that you have another lessor ready to begin negotiations if the current ones break down.

■ **Create a sense of security for the lessor.** Develop a comprehensive package about your products or services that portrays an exciting business and a solid financing opportunity. Don't try to hide financial problems, but highlight the positive aspects of your company.

■ **Put your request for lease quotes in writing.** You will be taken seriously if you use written requests, as all experienced lease negotiators do. Similarly, insist that all lease offers be in writing.

■ **Put together a deal timetable.** Nothing shows you mean business more than creating a timetable, updating it, delivering it to all parties, and complaining when deadlines aren't met.

■ **Keep requests simple.** A good deal often depends on keeping issues simple so the lessor knows what you want.

■ **Question what you don't understand.** Even experienced lawyers don't understand every provision of a lease contract. If you're self-conscious about asking for clarification, the lessor will sense it and may use that to his advantage. You might want to develop your own form lease.

■ **Never think the lessor is doing you a favor.** Lessors need your business.

■ **Have a third-party expert on call.** Even if you are experienced in leasing, let the lessor know that you may seek the advice of a leasing expert. It can be intimidating and will minimize bluffing and other such tactics.

■ **Don't let your perceptions get in the way.** Don't assume the lessor won't give you something you seek. Always ask.

■ **Be willing to change lessors.** Always be willing to start over with another lessor if the terms proposed in negotiations are unacceptable. If you use this as a trump card, though, be prepared to follow through.

Contino's 287-page book (McGraw-Hill, $39.95) also details how to select the best lessor for your needs and how to evaluate a lessor's offer. (To avoid pitfalls in leasing office space, see "Shutting The Door On Lease Problems," in the March issue.) ■

NB TIP

Financial Planning

Two free, 90-minute financial-planning seminars for business owners will be offered via satellite this summer. The seminars are sponsored by the Edward Jones investment firm in St. Louis, the U.S. Chamber of Commerce Small Business Institute, and *Nation's Business.*

The seminar topics and dates are "Your Business As An Investment," on July 31, and "Estate Planning Issues for the Business Owner," on Aug. 14. Both programs will be transmitted by satellite to various locations and can be viewed from noon to 1:30 p.m. Central time. For information on where seminars can be viewed or on hosting a seminar downlink site, call Rachia Smith at 1-800-835-4730 or (202) 463-5940. NB

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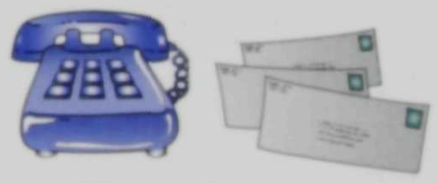
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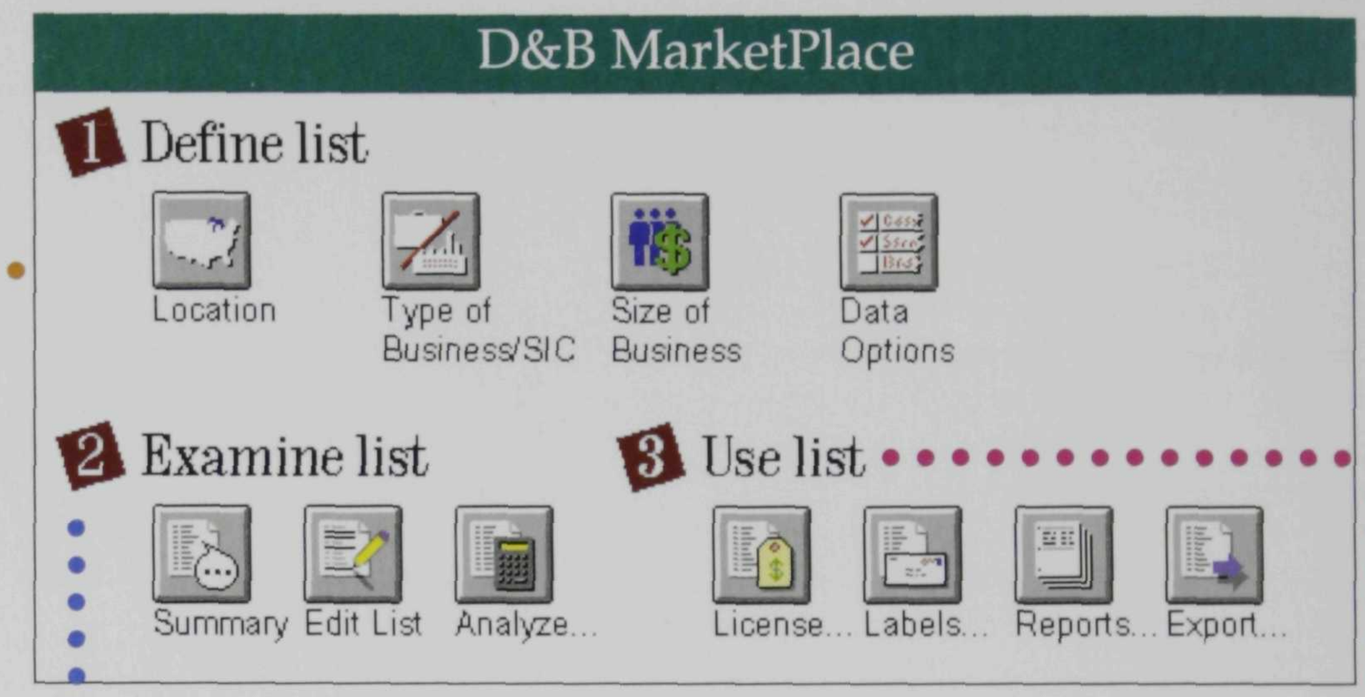
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Making It

Growing businesses share their experiences in creating and marketing new products and services.

The Toast Of The Town

By Michael Barrier

It's early afternoon in Manhattan, at an elegant restaurant on Central Park South. Glamour perfumes the air; Helen Gurley Brown of *Cosmopolitan* is lunching at one table, and John F. Kennedy Jr. at another. But when Tim and Nina Zagat arrive, they are greeted as if there were no other celebrities in the room.

The Zagats, through their company, Zagat (pronounced zuh-GAT) Survey, are the publishers of a phenomenally successful guide to New York City restaurants. It is one of 30 such guides, which cover 38 states and some Canadian cities. They also publish three national guides, including one for hotels and resorts. The guides range in price from $9.95 to $19.95.

The red-covered, pocket-sized New York guide, first published in 1982 and updated annually, rates 1,800 of New York's 15,000 restaurants. About 500,000 copies are sold annually. Thousands of customized editions are purchased by banks and large corporations to give to their best customers.

Tim, 55, and Nina, 53, who have been married for 31 years, are amused by the special treatment they receive from restaurants, which extends to naming items for them.

"About six restaurants in New York have a 'Zagat espresso' on the menu," Tim says. It's a regular coffee cup full of espresso. "Before we did the guide, we used to love to go to [a famous French restaurant]," he continues. "We never sat in the front of the house. Now, automatically, we sit with Henry Kissinger and the king of Spain."

If there's a secret to their success, though, it is that the Zagats identify closely with the people for whom their guides are published, the ones who care about good food but probably won't be sitting near Henry Kissinger—and who, in effect, write the guides, by rating the restaurants where they've eaten. The Zagats don't introduce their own preferences into the guides; they consider themselves vehicles for democratic expression by such diners. The 1996 New York guide, for instance, draws on the experiences of 16,000 restaurant patrons who ate out an average of almost four times a week. The guide's ratings are thus based on individuals' ratings of more than 3 million restaurant meals.

Zagat Survey takes precautions to forestall manipulation of the results: Each survey form is a special color, for instance, and photocopies are not permitted. Once the ratings are in the company's computer database, tests are run to search out suspicious patterns.

The Zagats know that their success could evaporate if a guide's integrity were to come under a cloud. As Tim says, "If a reader finds that two or three reviews in a row aren't right, they'll stop using it."

The guides originated in Paris in the late '60s, when the Zagats were working there as young lawyers. They surveyed their friends and put together ratings of Parisian restaurants as a hobby. They did the same thing for New York restaurants after they returned to the U.S., only to find



PHOTO: ©ARNOLD ADLER

Dining *at fabulous places is all in a day's work for Nina and Tim Zagat, who publish restaurant guides.*

their guides become so popular that they were spending thousands of dollars a year to distribute them.

"Every publisher in town turned it down," Nina says of their initial efforts to turn the guide into a paying proposition; so, starting in 1982, they published and distributed the guide themselves.

The breakthrough came late in 1985, after *New York* magazine featured the Zagats on its cover; they sold 75,000 copies of the 1986 guide in a month, and Tim left his job as chief litigation counsel for a large corporation. Nina quit private law practice four years later. Zagat Survey now has 30 full-time employees and 60 or 70 editors and coordinators in the field.

Inevitably, of course, mistakes sometimes creep in—but even a mistake can reveal the extent of the Zagats' influence. "Our books are filled with so many details," Tim says, "and we've occasionally gotten phone numbers wrong." Once, the phone number for a major restaurant was one digit off, "and the woman who really had the number got so many calls that she gave it up, and the restaurant took it over." ■

Reeling In Realism

By Janet L. Willen

Beside the many awards hanging on Amy DeLouise's office wall is a photograph of her with Tom Hanks. "Frankly, I could make the greatest documentary ever made, but if I tell people I worked on 'Forrest Gump,' they say, 'Ooh, wow, did you meet Tom Hanks?' "

It's no wonder. Hanks gave an Academy Award-winning performance in the 1994 film. Much of the praise for the movie was for its historical accuracy, and the credit for that goes largely to Take Aim Productions, Inc., the Bethesda, Md., video and film company founded by DeLouise.

DeLouise and Charlie Puritano, now Take Aim's executive producer, spent nine months conducting the research that the "Forrest Gump" art department used in creating authentic-looking scenes. For the antiwar rally, they investigated what people wore in 1969, how protest signs looked, and what kinds of buses, police cars, and camera equipment were used.

"We interviewed people who attended rallies. We asked police officers about colors of cars," DeLouise says. She and Puritano reviewed thousands of reels of film and reams of pictures, documents, and newspapers.

Archival research for "Forrest Gump" was Take Aim's first undertaking in what is becoming a lucrative part of its business. Following that success, DeLouise and her staff conducted research for "Sleepers," "Nixon," and the soon-to-be-released "Going West."

Archival research may seem like an unlikely venture for a film and video company that concentrates on production of advocacy, education, and public-affairs work for nonprofit firms, corporations, government agencies, and associations. Yet DeLouise recognized it as "a perfect example of niche marketing."

With all the resources in nearby Washington—the Library of Congress, the National Archives, and government-agency libraries—DeLouise believes the area is a natural for film research.

DeLouise entered the film and video business through what she calls the "do-everything route." After college, she worked for two years with a public-relations firm and then began a four-year free-lance career, which she got off the ground with her credit card. Clients hired her as a scriptwriter, location manager, production assistant, and producer. "I worked every hour available to work," she says.

One of her assignments was as assistant location manager for the film "JFK." DeLouise scouted out the sets, set up schedules, and made sure actors and police were there. She also did some archival research for the movie. Later, the location manager for "JFK" recommended DeLouise to work on "Forrest Gump."

As a free-lancer, DeLouise had opportunities to write, edit, produce, and shoot, but she never had responsibility for an entire project. "I wanted control over my initial vision," she says. "What you write turns out differently when someone else directs." So, in 1991, at age 28, she began Take Aim as a full-service video and film company. Production makes up 85 percent of the company's business.

DeLouise and Puritano do the writing, but everyone on the four-person staff does more than one job.

She has won awards from the Houston International Film Festival, the International Television Association, and others for videos ranging from a commercial spot for a local shoe chain to a fund-raising video on gender inequity in higher education for the American Association of University Women. "I don't want to get pigeonholed," she says.

Far from being pigeonholed, the company is diversifying. DeLouise expects to spin archival research off as a separate entity with its own budget and staff in about two years. Two investors are interested in helping to fund that endeavor.

The bulk of the work now, though, remains in production, where the company began, and that has been profitable. Last year, DeLouise anticipated revenue of $250,000, but Take Aim grossed more than $300,000. Her goal is to "break a half million this year." With her ability to recognize opportunities along the way, chances are good that she'll succeed. ■



PHOTO: T. MICHAEL KEZA

Video and film work *is like a box of chocolates for Amy DeLouise and her diversifying company, Take Aim Productions, Inc.*

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MAKING IT

However You Slice It

By Michael Barrier

Everyone knows about disposable blades—at least, the kind used in razors. But they're only a small part of the story.

Crescent Manufacturing, in Fremont, Ohio, east of Toledo, makes disposable blades used in a dizzying variety of specialized industrial, medical, and even sporting (for arrowheads) applications. If you eat a potato chip, says Charles J. Bayer, Crescent's vice president for sales and marketing, "there's about a 90 percent probability it was cut with one of our blades."

Why use a disposable blade—for skinning sides of beef, for instance—instead of using a more-durable blade and resharpening it? The answer, basically, is that there's no way to get a blade sharp enough, once it has been dulled in use, without spending more than it would take to buy a new blade.

Although some of Crescent's specialty blades are in exotic shapes, some look like simple straight blades, the sort of thing you would think would be within the capability of many manufacturers. "And yet," Bayer says, "if everybody in the world who could make them sat around a table for six, there'd be an empty seat."

Crescent isn't much interested in the market for "commodity blades"—those unsophisticated blades that can be produced cheaply overseas. "There's huge competition worldwide," Bayer says, "but at the low end." Says Frank Wojcik, who oversees engineering and quality: "Our growth opportunity is in doing it better than our competition."

And yet it was an ill-starred attempt to compete at the low end that almost drove Crescent out of business in 1990 and gave Bayer, Wojcik, and their co-owners, Edward J. Miller and Michael Waleryszak—all of them then executives in the company—the chance to buy Crescent and lift it out of bankruptcy.

Crescent was in fact sold three times between 1979 and 1990. The second set of buyers—in an effort to spur the revenue growth they needed to pay for their 1985 leveraged buyout—tried to turn Crescent, a specialty-blade manufacturer since 1898, into a commodity manufacturer, explains Waleryszak, the chief financial officer.

"It just didn't work," he says, because it required such a change in the company's "basic belief system." All four of the present owners joined Crescent between 1986 and 1988, mostly learning only after taking their jobs how shaky the company was.

Says Miller, now Crescent Manufacturing's president: "I was under direction to sell single-edge razor blades, utility blades, paint-scraping blades—but we had no possibility of supplying the volumes, through our production equipment, that I was being asked to sell." Worse, he says, in specialty markets where Crescent already had high market share, "we were atrociously short in our service levels."

Crescent's debt continued to rise, until, by the spring of 1990, it totaled $14.5 million.

The owners tried to sell the company as a balloon payment approached. At the last minute, Waleryszak says, "we made them an offer, they threw us the keys, we grabbed them, and we filed for bankruptcy" under Chapter 11.

While he was heading the sales effort before the bankruptcy, Miller says, "I gave lip service to the commodity challenge, and proceeded in fiberglass, food processing, and medical applications, under cover, to strengthen our dominance there and improve our service levels." Thanks to that, he says, Crescent won "the loyalty that I think got us through Chapter 11."

The four owners divided their duties—Wojcik taking production, Miller sales, and Bayer and Waleryszak the intimidating paperwork and financial calculations required to survive the bankruptcy itself.



PHOTO: ©SANTA FABIO-BLACK STAR

Crescent Manufacturing's *co-owners—from left, Michael Waleryszak, Charles J. Bayer, Frank Wojcik, and Edward J. Miller—used sharp business sense to succeed.*

The approximately 140 employees in the front office and on the production floor, who had been afforded the chance to observe the four new owners in action for the previous few years, "stood up and said, 'We're going to help out,' " Waleryszak says. "The people on the floor said, 'We're going to make work-rule changes for you,' " to help keep the company afloat.

"The level of trust was a bit overwhelming," Bayer says of the employees. "They just knew that it was going to be OK." While the company was in bankruptcy, he says, "we had constant, ongoing communication with the employees; and we still communicate with our people consistently, because I guess we're comfortable doing it."

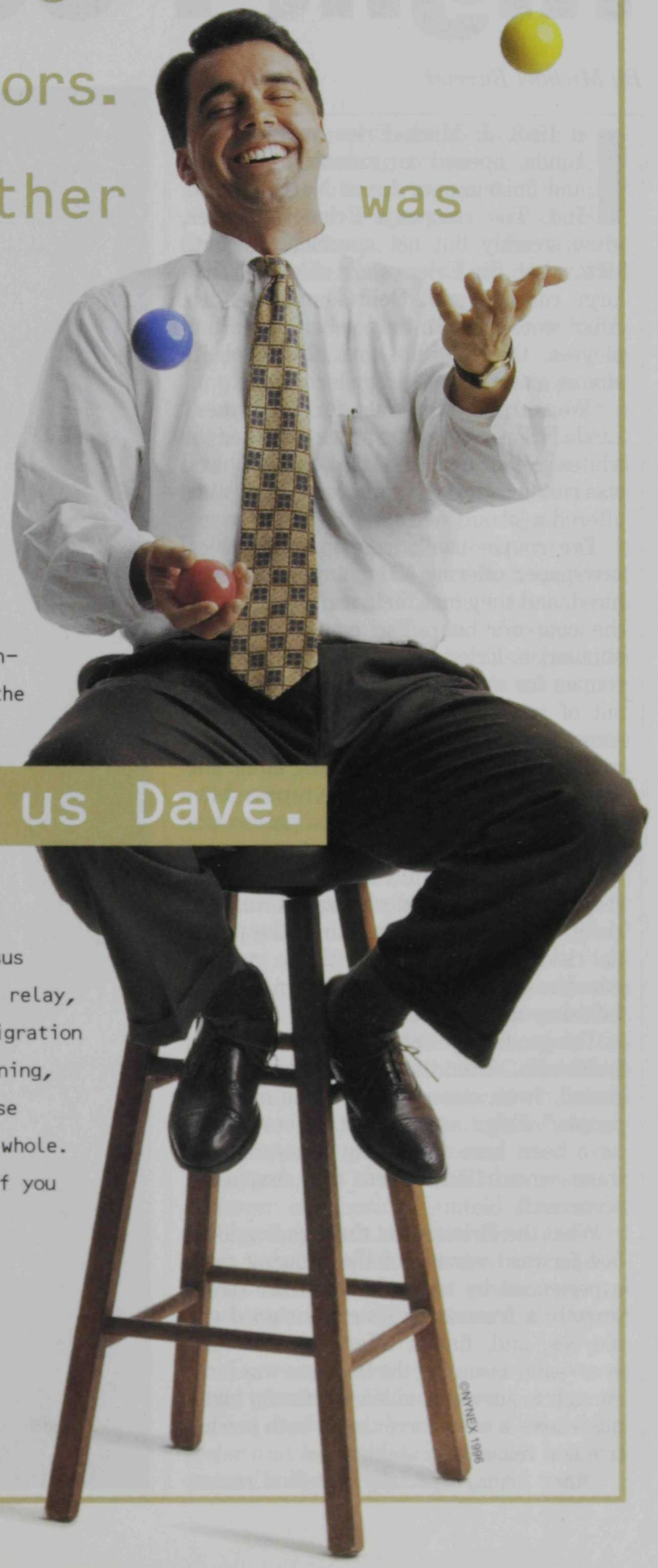
The four owners have always run the company as equals—and that did create problems, especially when the company was in bankruptcy, and the owners were being pulled in many different directions. "What we learned," Bayer says, "was that you have to look at your organization, your own situation, and make your own decisions—not listen to lawyers, not listen to bankers."

Because all four owners had their egos under control, he says, they were always able to refocus on what they were trying to accomplish: saving the company. Crescent emerged from Chapter 11 in June 1991 and has since been consistently profitable; its revenues have been running around $10 million annually.

Now the owners work together so closely that they can actually switch jobs, as Bayer and Miller did last year, when Miller became president and Bayer vice president. "I was getting stale as president," Bayer says, "and Ed needed a jolt."

Says Miller: "We're all pulling out a little bit. Our perspectives are more geared to the future; we're learning to take a longer-term view and allow our people to do the jobs they're here to do." NB

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COVER STORY

Hiring The Right People

By Michael Barrier

In 1988, J. Mark Erler and his wife, Linda, opened an industrial painting and finishing service in North Vernon, Ind. The company, Erler Industries, grew steadily but not spectacularly until 1992, when the Erlers were chosen to fill a large contract with Dell Computer Corp. After working with only a half-dozen employees, they had to hire 175 people in almost no time to do entry-level work.

"We were so desperate for employees," Linda Erler recalls, that "if we could see the whites of your eyes and it looked as if blood was running through your veins," you were offered a job.

The couple ran a coupon in the local newspaper, offering $50 to anyone who was hired, and they met their staffing goal with the coupon's help. The coupon bore the stipulation, Erler says, "that if you did not remain for at least 30 days, $50 was taken out of your last paycheck. So there was some incentive to stay."

Even so, she says, "we had tremendous turnover. Everyone had to be replaced five or six times before we found a person who really wanted to work."

The Erlers had to hire so rapidly that they couldn't check references. "It was very risky," she says, and sometimes the potential risks materialized, as with the group of new hires who came to work one night with "whiskey in their soda cans."

Things finally settled down at Erler Industries. After that long trial-and-error period, "we came out with some excellent people," Erler says. "Most of our people have been here for a long time, many of them since 1992, when that 'explosion' occurred."

What the Erlers went through was like a fast-forward version of the growing pains experienced by many small firms: strong growth, a frustrating search for good employees, and, finally, after a lot of turnover—and assuming the business was lucky enough to survive and learn from its hiring mistakes—a work force that is both productive and reasonably stable.

Other firms, especially fast-food restau-



PHOTO: ©SHAWN SPENCE

Smart Hiring

Your company's success depends on it—but how should you go about it? Here are some guidelines.



rants, must simply learn to live with heavy turnover, by making constant hiring part of the normal routine. A typical story is that of Samuel Glover, who as the owner of SSJC, Inc., in Columbia, S.C., has been a McDonald's franchisee since 1989. He started with one store and now owns four.

"We are always looking for people," says Glover, because so many of his 150 or so employees are high-school or college students, working part time, and turnover is high—150 to 175 percent a year, he estimates. He hopes his student employees will stay with the company for two or three years, but it's usually less than that.

"It's an ongoing challenge to find people who are committed to work and care about the job," he says. The challenge is even greater now, he believes, than when he opened his first store because potential employees' attitudes toward work have deteriorated over the years.

Even though Glover and his managers search for people with the right attitude—in particular, they ask good employees to encourage their friends to apply—they also have to deal with the compelling need to fill vacant slots. "Sometimes," he says, "we have to hire people, knowing full well they aren't going to work out for the long term."

The typical small business never has to deal with the explosive growth that Erler Industries experienced or the constant turnover at SSJC. But filling jobs with the right people is no less a struggle—and the damage done by a single hiring mistake can be severe.

Failures in hiring and the resulting turnover cost business untold amounts of money. It costs to advertise for workers; it costs valuable time to review job applications, interview potential employees, and check references. Then there's the cost of

Rapid growth *for Erler Industries was a dream come true for owners J. Mark Erler and his wife, Linda, but it also caused a hiring nightmare.*

training a new worker. All these expenses can be wasted if a new employee doesn't stay long.

McDonald's, for instance, has what Glover believes is "the world's best training program. We start training the minute a person walks in the door, and we spend $350 to $400 training an individual before we put that person on the floor." Such training yields scant return to a company if an employee quits or must be fired after a few days or weeks on the job.

Sometimes, on the other hand, a company hires people unsuited for the job, and they *don't* leave; that kind of mistake can be costly, too.

Cynthia Stevens, an assistant professor in the college of business and management at the University of Maryland at College Park, cites the case of a small business whose owner hired "a friend of a friend" as his first employee. The worker, who was foreign-born, didn't speak English very well, and one of her most important duties was to answer the phone.

The language difficulties and cultural differences caused a multitude of problems, but the owner couldn't bring himself to fire the woman. After all, he was the one who made the mistake.

Small businesses, more than businesses of any other kind, can't afford to make such mistakes, because each person on a small firm's payroll typically accounts for a larger part of that business's activity than someone holding a comparable job in a large company. One person in a small company may play a role similar to a department of 50 people in a large company, for example; he or she simply performs the function on a smaller scale. And yet, small companies are probably more likely than other companies to make hiring mistakes.

Howard E. Aldrich, a sociology professor at the University of North Carolina at Chapel Hill, says that the first hires in the small businesses he has studied tend to be people who have a personal relationship with the owner.

"They were hired not necessarily because of a specific skill they had," he says, "but because they were trusted. There wasn't a specific job description in mind." As the business grows, Aldrich says, the hiring process switches "pretty abruptly" and the employers begin hiring strangers, often finding them through advertisements and placement agencies.

It's when the company ramps up in such fashion that the seeds of trouble are sown, he says. The company tends to grow not in accordance with a carefully considered plan but around the "idiosyncratic jobs" held by the haphazardly added early hires.

In sum, the hiring that comes with a small

Interviews: The War Of Wits

You've seen them lined up on bookstore shelves—volumes with titles like *101 Great Answers to the Toughest Interview Questions.* They promise to prepare job seekers for their encounters with employers who, like you, need help and need it now.

The problem is, that job seeker may be better prepared for the interview than you are. You may come away from the interview thinking that you've found Mr. or Ms. Right when you've really only found Mr. or Ms. Well-Rehearsed.

To restore balance, you need to have an interviewing strategy of your own.

Such a strategy could include the following elements suggested by experts in the field:

✔ **Don't wait until you're overwhelmed to start looking for help.**

Too often, says Cynthia Stevens, an assistant professor in the college of business and management at the University of Maryland at College Park, small-business people fall into the trap of thinking "there's too much to do, and not enough time," and they have to hire someone right away. "It often gets to the point where things are almost out of control before they take that step of hiring someone new."

✔ **Think about exactly what you want the new hire to do.**

Even though small businesses are typically informal operations, without detailed job descriptions, Stevens says, their owners can still ask themselves, "What are the parts of the work that need to be done that we could reasonably give to somebody else to do?"

✔ **Prepare a list of questions in advance, and ask the same questions of each candidate.**

Inexperienced interviewers typically "ask whatever comes to the top of their mind," says Stevens, who has done research on interviewing and recruiting job candidates. That means the interviewers don't get comparable information from each candidate, and comparative evaluations are thus more difficult.

In addition, she says, "a lot of times the information they get isn't related to the job." The interviewer may be left with a warm glow from a friendly conversation—thinking "he's one of us, he'll fit in well"—but no real sense of how the candidate might perform on the job.

✔ **Structure your questions so that they require the job candidate to relate actual experiences.**

Here's one approach: "Can you give me an example of a time when you were particularly creative and resourceful, or when you had a lot of deadlines that you had to meet in a short period of time?"

Faced with such questions, Stevens says, applicants find it more difficult to ask themselves, "How do they want me to respond?" They must talk instead about actual experiences.

James Schrager, president of the Great Lakes Group consulting firm, in South Bend, Ind., goes further. "A résumé is a balance sheet with no liabilities," he says. "In the interview, I go to find where all the liabilities are. You've got to train yourself as an interviewer to ask—in a nice way—for the problems."

Among the questions he suggests: What was your biggest failure? Can you describe a situation when you didn't get along with a co-worker and how you handled it?

✔ **Don't do all the talking in the interview.**

This, Stevens believes, "is a big problem for people who aren't used to screening people." Ask questions, and let the job candidate do the talking.

✔ **Resist the urge to hire anyone after only one interview.**

Says Schrager: "I think that what's key is to spend as much time as possible, in as many different ways as possible, with the people you're trying to hire. More information always costs you more, but this is one area where it's important to spend time and money."

✔ **Involve other people in the interview process, especially if they're going to be working with the new hire.**

It can make sense to have two or three people interview a candidate at the same time, especially when time is short.

"In most circumstances," says Fred K. Foulkes, a professor of management policy at Boston University, "it's good to get as many of the senior people involved in the hiring process as possible—not only to get their input but to get their commitment to the success of the person."

PHOTO: ©TERRY PARKE

With annual turnover *at 150 to 175 percent, "we are always looking for people," says McDonald's franchisee Samuel Glover.*

company's growth is rife with perils. The lesson implicit in Aldrich's findings is that small businesses need to pay concentrated attention to hiring before the need for additional employees becomes a crisis.

The highest-profile hiring situation is, of course, the job interview. (See "Interviews: The War Of Wits," Page 20.) But other phases of the hiring process can be equally critical. Here are some guidelines on how employers can position themselves to make good hiring decisions:

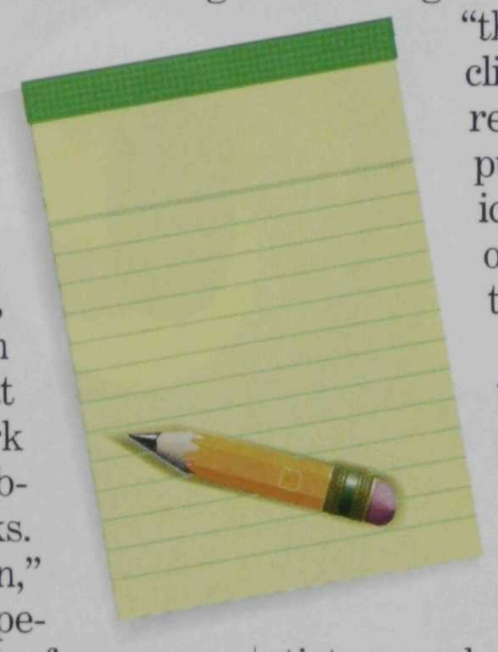
Think carefully about what you'll want from the person you're going to hire. "It's important for a small company to spend a good amount of time defining the tasks that need to be accomplished to get to a goal that it has in mind," says Harold P. Weinstein, executive vice president of Caliper, a testing and consulting firm in Princeton, N.J.

If a company's owners and managers do that, he says, "they've gone a long way toward finding the right person." Such an analysis may also lead to the realization that you should not hire your good friend but should instead seek out a stranger who has specialized skills.

But it may just as easily lead you to conclude that you don't need a person with a lot of experience in a particular field.

Someone selling computers, for example, doesn't need to know as much about them as a senior programmer does—and it can make sense to take someone who knows nothing about computers, but whose personality makes him superbly equipped for selling, and teach him as much as he needs to know about computers before sending him on a sales call.

"The most important thing to me is whether I like the person and I think they'll get along well with other people," says publisher Nina Zagat. She and her husband, Tim, employ 30 workers—largely in editing and production—at Zagat Survey, a New York company they own that publishes restaurant guidebooks. (See "The Toast Of The Town," Page 13.) "Except in highly specialized areas, there are a lot of things you can train people to do," she notes.



While technological advances are increasing the need for training in some areas, in others they are reducing the requirements. In some instances, this may enable employers to hire people whose experience is limited but whose customer-service orientation is critically important.

At Passport Travel, a 115-employee firm in Overland Park, Kan., owner Leonard S. Hershman decided in 1988 that excellent customer service was the way to set his travel agency apart from its competition. Technology is proving to be a crucial element in implementing that strategy.

Susan Rice, Passport's vice president for administration, says, for example, that technology is allowing for more "scripting" of travel agents' actions. She cites software "that allows an agent to point and click his or her way through a reservation" and another computer program that automatically assigns seats and adds other information to the customer's record.

"By allowing technology to take over the basic shell of a reservation," she says, "we've been able to free up the agent to give more personal service to the customers. We think that's where we can differentiate ourselves."

Don't give up on reference checks. Fear of defamation suits has led many employers, especially large companies, to clam up when they're asked about former employees; they'll often reveal only the equivalent of name, rank, and serial number. But there may be ways around that obstacle.

"What you hope," says James Schrager, president of Great Lakes Group, a consulting firm in South Bend, Ind., "is that you

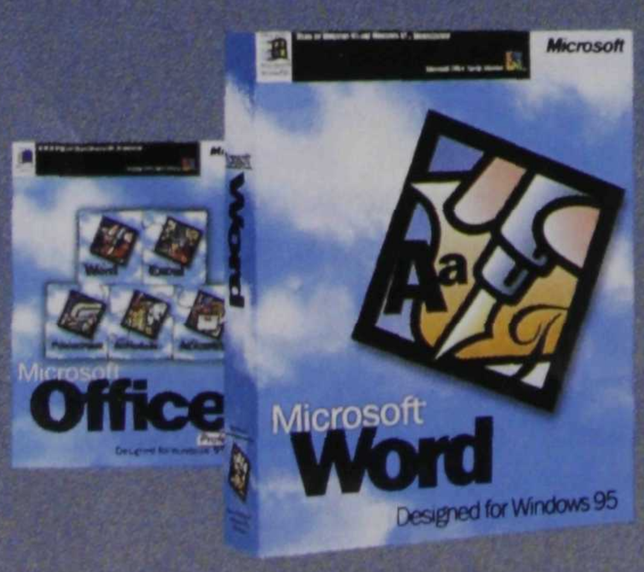
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Personality tests—*when they're combined with tests of other kinds—have proved useful in hiring for Rick Brindisi, left, and Edward Hammer of Spirit Rent-A-Car.*



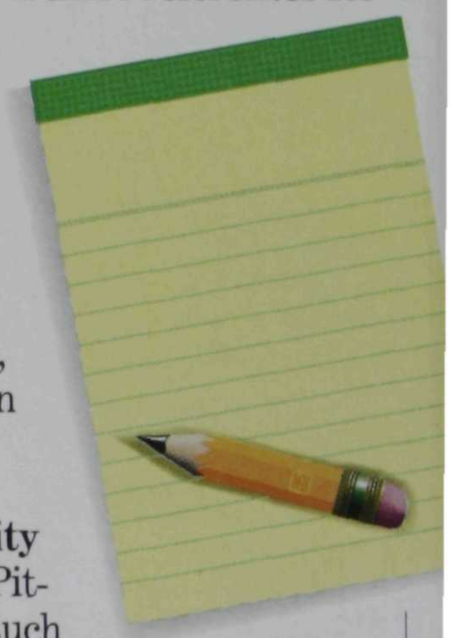
PHOTO: ©CHARLES KNEYSE—BLACK STAR

Technology has bridged gaps *with new hires for Leonard S. Hershman, president of Passport Travel, in Overland Park, Kan., and Susan Rice, vice president for administration.*

can find a small company somewhere along the way and make a personal connection with the reference giver so that the person can trust you to take whatever they say and not repeat it. You can make a decision based on it, but you can't repeat it."

Even when the company is a large one, says Fred K. Foulkes, a professor of management policy at Boston University, it may be possible to go around the personnel department and find a supervisor who will be more forthcoming.

Another tack Foulkes suggests: When you're calling the references a job candidate has provided, ask one of those references for the name of someone else—someone perhaps not on the list—who knows the candidate well. (For an overview of various legal issues involved in filling jobs, see "Thorny Issues In Hiring," April.)



Consider personality tests—cautiously. Pitfalls surrounding such tests have drawn a lot of attention in recent years, mostly because of legal challenges based on alleged racial or gender discrimination or invasion of privacy.

Professor Robert W. Shively of the Babcock Graduate School of Management at Wake Forest University, in Winston-Salem, N.C., says: "You can get into trouble unless the test is validated for the kind of duties the person will have to do."

On the other hand, personality tests may be of great value to small companies that have relatively large pools of employees who are all performing similar duties. In such instances, a test may reveal patterns of personality traits that are common to strong performers. The company can then use the test to seek out job candidates whose personalities resemble those of its best employees.

Such use of a test "tends to be regarded favorably" by agencies like the Equal Employment Opportunity Commission, says the University of Maryland's Stevens, because it so easily meets the requirement of being "job-related." She warns, however, that "you have to be in a situation where you've got enough employees" to give the results statistical validity.

That was the situation at Spirit Rent-A-Car, Inc., a Cleveland-based firm that specializes in "insurance replacement" rentals to people whose cars have been stolen or damaged. Spirit now has more than 300 employees at 72 locations in nine states and Washington, D.C.

At a testing company's suggestion, Spirit



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An Extended-Tryout Option

For those small businesses that are uncomfortable putting new employees on probation, yet shrink from hiring someone without such an escape hatch available, there is an alternative: temp-to-perm.

This involves hiring a temporary worker from an employment agency with the understanding that if the temp's work is satisfactory for a specified period—typically three months—the employer will hire that person full time, often with the payment of an additional fee to the agency.

No Hurt Feelings

If the temporary worker is not satisfactory—or if the company's situation changes so that a permanent employee is no longer needed—the temp departs, and, it is hoped, there are no bruised feelings on either side.

Temp-to-perm arrangements seem to be growing in popularity, although there's not much statistical evidence available.

Last year, the National Association of Temporary and Staffing Services, in Alexandria, Va., surveyed former temporary workers who had stopped accepting such assignments and found that 16 percent of them had taken permanent jobs that were arranged through their temporary agencies; an additional 13 percent had taken such jobs without a prior arrangement.

Cleveland-based Spirit Rent-A-Car uses temp-to-perm extensively for clerical positions at its corporate offices. "You get a good look at them before making a definitive commitment," says Rick Brindisi, vice president of operations, "and they get a good look at you. That's important, too. If a person feels very good about a job decision they've made, that person will be a better employee."

Steve Gill, vice president of information systems for Resource Mortgage Capital (RMC), a Glen Allen, Va.-based real-estate investment trust with about 200 employees, says that he has used temp-to-perm "fairly often" and that "it's a preferred way for us to go."

"There's very little risk" in temp-to-perm, Gill says. "If you're starting a new line of business, and you hire people, and it turns out not to be a viable line, you have to turn around, sometimes, and let them go. That's painful for everybody involved."

With temp-to-perm, though, he says, "they understand the uncertainty of it."

But the major benefit, Gill says, can be summed up as "try before you buy. You'll really be getting a good, hard look at somebody, in a production environment."

RMC uses temp-to-perm "all the time with administrative assistants," Gill says, and "on the systems side we've done it with programmers and analysts"—workers who have been supplied by InterExec, the "interim professional placement service" of Cleveland-based Management Recruiters International.

> **"There's little risk" in temp-to-perm hiring. You get "a good, hard look at somebody, in a production environment."**
>
> **—Steve Gill, Resource Mortgage Capital**

Hiring a new employee is "a big-ticket buying decision," says InterExec's national director, Thomas K. Johnston. Temp-to-perm is a way to be more comfortable with that decision, and its use has been spreading upward, to higher-paying positions, Johnston says, as business people have sought "the same type of comfort level that they're used to."

Ten percent of InterExec's placements last year were in temp-to-perm—a doubling in two years, Johnston notes, although he can't provide a breakdown by size of company.

A Little Costlier

"The only drawback would be that it winds up costing you a little more," says RMC's Gill, because the agency's fee comes on top of the worker's salary. "You're paying for some insurance; that's really what you're doing."

Kathryn Shaw, an associate professor in the Graduate School of Industrial Administration at Carnegie Mellon University, in Pittsburgh, sees another possible drawback: "When you're hiring from a temp agency, they do the screening of the workers.

"All too often, you'll get workers who might not really be your first choice, in terms of the initial screening; but you keep them because you've been able to look at them on the job," she says.

"If possible," she continues, "you want to work with the temp agency to get the right workers initially."

started not by testing job applicants but by testing managers and salespeople already on the staff. "It was absolutely mind-boggling how accurate [the test] was," says Rick Brindisi, Spirit's vice president of operations. "You could literally have put them in three piles—these tested the best, these tested kind of average, and these tested not so well—and those would have been the performance levels of those individuals" on the job, he says.

Spirit subsequently devised its own test, with some outside help, that is "specific to the kinds of things that we do," Brindisi says. Spirit tests likes and dislikes; an outside salesperson, for example, must enjoy meeting people and trying to sell them on Spirit's services.

The company also uses various aptitude tests geared to different positions in the company. Spirit's president, Edward D. Hammer, says the company looks for both a good interview and strong scores on both personality and aptitude tests. "When any one of those three is missing," he says, "more often than not, we end up looking back when we're terminating people and saying, 'It told us, right here, that the person didn't like to sell over the phone, or the person wasn't that quick.' "

Caliper's Weinstein, whose company has administered more than 1 million "personality assessments," concurs on the importance of using such tests in combination with other judging factors.

"One of the biggest mistakes a company can make," he says, "is being overly reliant on any one element in the hiring process. If we base the whole decision to hire on an interview, or a résumé, or work experience, or a test, or a reference, or appearance—any of those things—it's going to be wrong. The goal is to get all those data points to sing in unison."

It's important to remember, too, that drawing up a profile of your top performers can't take the place of a business strategy; it has to be a part of your strategy, not a substitute for it. And as your strategy evolves, so should your definition of what constitutes a top performer.

Put new employees on probation. "A lot of CEOs of small and medium-sized businesses fall in love with potential new employees," says Great Lakes Group's Schrager. "They don't want to hear about a probation period, because they don't want to think about failure. But no one's magic."

After the second or third interview, he says, he usually tells a job candidate, "You're worth a try, but it's going to be a temporary arrangement." They agree on clearly defined terms and put them in writing, "so they have a letter when they're hired, and they know exactly what's going to happen to them."

Says Kathryn Shaw, an associate professor in the Graduate School of Industrial Administration at Carnegie Mellon University, in Pittsburgh: "Probation is very common. I think employees expect to be on probation."

On the other hand, she adds, "they also expect to pass probation. So I think it is more difficult to fire someone if they don't make it through probation. You may not worry about it from that person's point of view, because you'll never see them again, but you have to be careful what signals it sends to the other employees." If the firing of a probationary employee appears arbitrary, it may inspire in those other employees an unwarranted fear that they may lose their own jobs.

The smaller the firm, the more ticklish probation becomes because, as Stevens says, "with a smaller organization, the people sort of become your family, and you don't want to fire a sibling. [A probationary employee] sort of develops 'squatter's rights' to the job." In such circumstances, a company could explore a temp-to-perm arrangement as an alternative. (See "An Extended-Tryout Option," Page 26.)

Think of hiring not as a single event but as a long-term relationship. When you've done everything right and you've hired a brilliant job candidate who seems destined to be a star performer, the hiring process isn't over; it has really just begun. The ultimate validation of your hiring decision can only come as your new hire performs in the job. As Robert Kelley, an adjunct professor at Carnegie Mellon, says, what really distinguishes star performers from the rest is not their intelligence or their personalities or anything else of that kind, but "how they do their jobs, day in and day out. What you really want to know is how they go about doing their work."

The life of a company consists of what its employees do; and what determines a company's success is how closely that day-to-day performance is related to the company's goals. The company that focuses on that relationship will probably find itself emerging strongest from the hiring process. NB

To order a reprint of this story, see Page 56. For a fax copy, see Page 5.

Do You Need A Human-Resources Manager?

At some point, as your company grows, you may need to add a full-time human-resources manager to your staff to do the initial screening of job candidates, among other tasks. But when should that be? One answer offered by a number of experts: when the number of employees approaches 200.

In a smaller firm, says consultant James Schrager, "you probably need a good administrative assistant—but not a professional—to do all the paperwork" that falls under the human-resources umbrella.

Requirements for complying with federal laws start becoming a serious issue for small companies when they have 15 or 20 employees. And the rules escalate as a business gets larger. The Family and Medical Leave Act kicks in at the 50-employee level, for instance.

Individual states' requirements may be even tighter. Someone on your company's staff will have to be prepared to respond to demands from government agencies for information related to how your company is complying with such laws.

Alyce Ann Bergkamp, an assistant dean at Catholic University, in Washington, D.C., suggests a very practical test to determine when it is time to hire a full-time manager to deal with such human-resources work. That time, she says, is when the load reaches the point that the person handling the work is not able to do the rest of his or her job.

For Dick Richards, owner of the 235-employee Country Inn Hotel & Conference Center, in Waukesha, Wis., hiring a full-time human-resources manager in 1991, when his company was just over that 200-employee threshold, made a dramatic difference in his business.



PHOTO: ©BRUCE BUCHANAN

Hotelier *Dick Richards—with chef Dave Davidson and housekeeper Amy Estrada—says a human-resources director such as Judy Mazzle, left, can make a big difference when a firm passes the 200-employee threshold.*

Before he hired a full-time manager, he says, "the thing that just seemed to fall through the cracks, always, was the hiring process." Hiring was done by department heads, on a catch-as-catch-can basis. "If you felt a warm, fuzzy feeling in your gut, you hired [the applicant] and hoped that things were going to work out. Well, things began not to work out."

Only about one-third of Richards' employees are full-time, permanent employees; the rest are part-time or "transient" employees, who intend to work only a few months.

It's not just the size of his work force but its ever-changing composition—with turnover of 75 to 100 percent in a year—that can make it desirable to have a full-time human-resources manager, he says. His HR manager performs the critical task of screening applicants for lower-level jobs before the appropriate department head schedules interviews with candidates.

At Richards' hotel, the shift to a full-time HR manager has been accompanied by other steps—an orientation program, a training program, benefits programs—that make hiring part of a continuum. One advantage of such a comprehensive human-resources effort, Richards says, is that it increases employee satisfaction, and "a satisfied, happy employee" is more likely to bring other good people into the organization.

"Pay the buck upfront" for a full-fledged human-resources professional, Richards advises. "It's easier running a business when you don't have that employee problem, or you're just being briefed on it on a weekly basis."

POLITICS

Small Business Plays Its Cards

By James Worsham



PHOTO: T. MICHAEL KEZA

Small-business owners *and managers have been pulled off the political sidelines by big government, says U.S. Chamber of Commerce President Richard L. Lesher, third from right, talking with small-business people in Chambersburg, Pa. From left are H.A. "Pete" John, a real-estate broker; William K. Nitterhouse, president of a concrete-products company; David G. Sciamanna, president of the Greater Chambersburg Chamber of Commerce; Edmund T. Lesher (no relation to the U.S. Chamber's Lesher), president of an electrical-contracting firm; and Susan O. Smith, owner of an insurance agency.*

What's at stake for small business in this year's elections?

As the presidential campaign drifts toward the summer conventions, attention is shifting to the battle for control of Congress: Republicans will fight to maintain or strengthen their dominance, and Democrats will struggle to recover from and reverse their 1994 losses.

With their business and labor allies, respectively, Republicans and Democrats will spend tens of millions of dollars to win the power to wield the congressional gavels.

Without question, who runs Congress is important to small business. The party in power sets the legislative and regulatory agendas, and that often determines whether legislation important to millions of small businesses will be crafted and ultimately brought to votes.

The 1994 elections handed Republicans control of both houses of Congress for the first time in 40 years and sent an almost unprecedented number of small-business owners and managers to Capitol Hill (see the table on Page 30), where they crafted an agenda favorable to small business.

At stake this fall is whether small business can maintain or expand its new foothold in Congress, most notably in the House, by helping to re-elect pro-business candidates and elect more lawmakers sympathetic to small-business concerns.

"The great majority of freshman members of Congress are themselves small-

The challenge facing pro-business lawmakers in the November elections is to build on their newfound clout.

business people with a decidedly small-business view of the world," writes Richard L. Lesher, president of the U.S. Chamber of Commerce, in a new book.

And among Republicans, it is the freshman class, with its small-business roots, that has provided the sharp, vocal cutting edge of the new GOP majority. With their take-no-prisoners approach, the House GOP freshmen pushed their leaders to resist compromise with the White House and the more moderate Senate Republicans and even forced two government shutdowns in an effort to win their demands. Their resoluteness has irritated even GOP congressional leaders at times, but their influence has been clear.

"They are mostly not lawyers and not legislators. They want results, and they want them now," says David Mason, a vice president at the Heritage Foundation, a conservative public-policy research organization in Washington, D.C. And they are impatient with the traditional Capitol Hill pace, he says. "They view a five-year or a seven-year time frame to get something done as absurd."

Owners and managers of small businesses, whatever their political affiliation, typically want less government interference in their affairs. They want less-costly and less-intrusive regulations, lower and fewer taxes, more powers handed to states, and balanced federal budgets.

Pursuit of this kind of agenda has been typical of small-business forces on Capitol Hill for years, but the aftermath of the 1994 elections was different: In some of the greatest numbers ever recorded, small-business owners and managers themselves, fresh from hand-to-hand combat with federal inspectors and tax auditors, arrived in Congress as lawmakers with an agenda—and with clout.

But a year and a half after the euphoria of the 1994 voting, trouble has emerged on the political horizon for many pro-business Republicans who must face the voters again this November.

Not only has much of the small-business agenda stalled after it was acted on by the House, but opposition—aided by a reinvigorated political movement among organized labor—has emerged with the intent to kill it. The unions are coming to the aid of their traditional allies—Democrats—and are amassing tens of millions of dollars to keep President Clinton in the White House and to help the Democrats win back the House and the Senate.

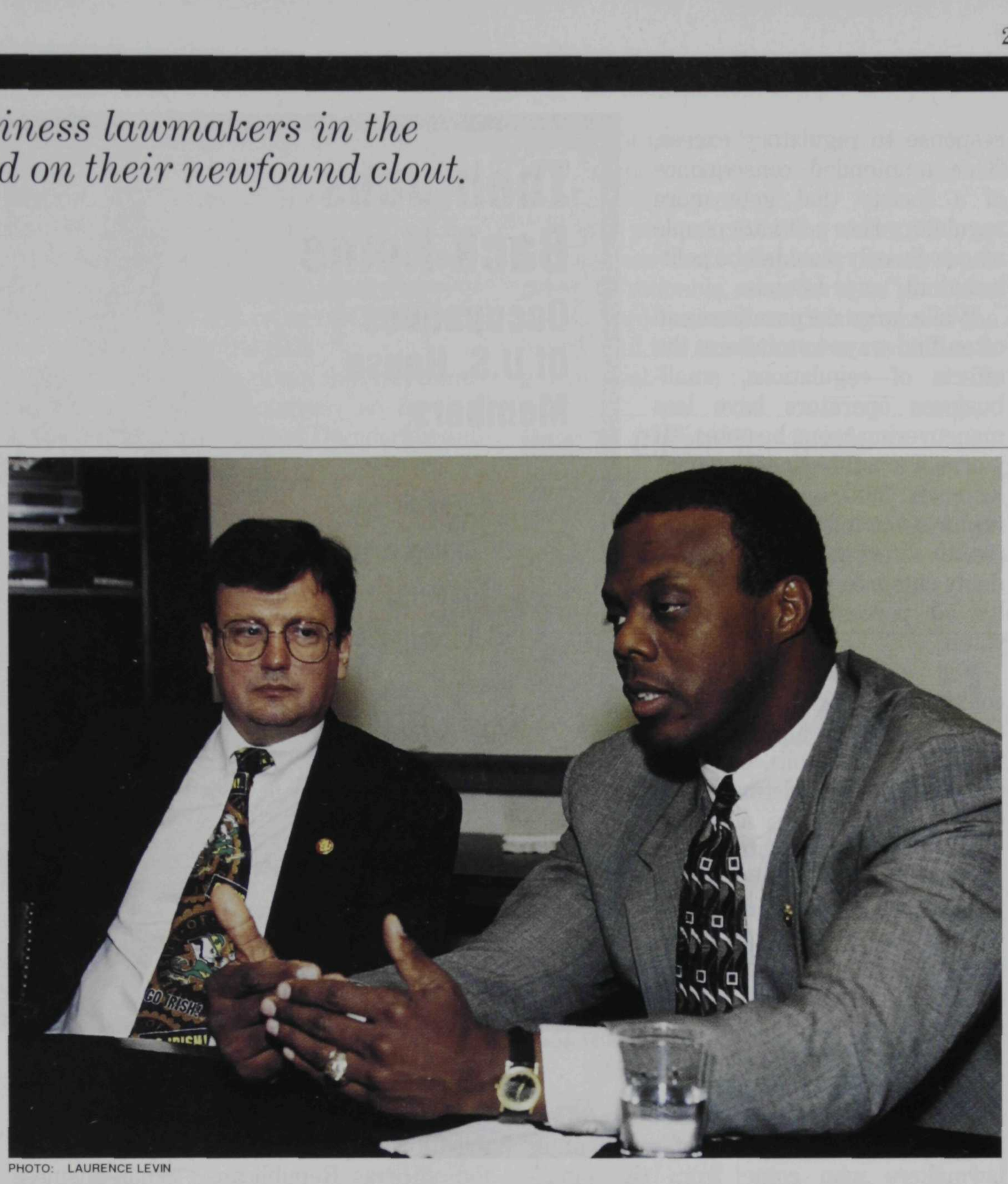


PHOTO: LAURENCE LEVIN

Lawmakers *with small-business experience include Reps. Mark Souder, R-Ind., left, who has a general store, and J.C. Watts, R-Okla., whose firm manages real estate.*

Only two years ago, many of this year's political targets were quite literally minding their own businesses, watching politics from the sidelines. They became candidates for the first time in 1994 out of frustration with Washington. Government policies, they felt, worked against the development of new products and services and creation of jobs.

For years, however, small business went along with whatever Washington handed down. Owners and managers viewed new regulations or federal mandates as another burden to shoulder, without any appeal. The typical response "was to shrug, grumble, and return to work," says Lesher in detailing the rise of small-business activism on Capitol Hill in his book, *Meltdown on Main Street: Why Small Business Is Leading the Revolution Against Big Government* (Dutton, $22.95).

He adds: "Most small-business people have more than enough work to do and problems to worry about without taking on the federal government."

But Clinton's massive proposal for a health-care overhaul in 1994 pushed many small-business people over the edge with its requirement that companies of all sizes offer all employees medical insurance. It was this so-called employer mandate, Lesher says, that prompted a small-business call to arms against big government and added such mandates to small firms' litany of grievances against Uncle Sam.

"It took an external threat—the Clinton administration's health-care-reform plan—to evoke that new voice and [propel small business to] demonstrate its clout," Lesher writes. His book chronicles the increased political activism of small-business owners and managers in 1994 and the role that government, especially as a regulator of the workplace, played in bringing them off the political sidelines.

Burdett Loomis, a professor of political science at the University of Kansas, in Lawrence, says the surge in small-business involvement in politics was a predictable

response to regulatory excess. "One unintended consequence of a society that gets more regulatory is to politicize people who ordinarily wouldn't be political at all," says Loomis.

While large corporations can often find ways to minimize the effects of regulations, small-business operators have less maneuvering room, he notes. "If you're a small-business owner," he says, "and a decision that requires you to install, for example, air-filtering equipment suddenly cuts into your bottom line by 50 percent, you're motivated."

For example, Lesher recounts the experience of Frank Cremeans, who ran a concrete business in Gallipolis, Ohio. On the day before Christmas 1993, Cremeans had visits, all unannounced, by inspectors from four regulatory agencies. "They just showed up at my door without any prior notice and started raking me over the coals," he told Lesher. The experience led Republican Cremeans to run for Congress, and he won in 1994.

Cremeans' experience wasn't too different from the experiences of many other lawmakers who come from the small-business community. Unlike CEOs of large corporations, they often deal directly with federal officials who come to enforce regulations and tax codes, rather than handing those tasks off to platoons of lawyers and accountants.

Lesher believes the involvement of small business in the 1994 elections, as candidates or otherwise, was "the decisive force" in handing Republicans—because of their typically pro-business leanings—control of both the House and the Senate. "Small business became engaged in politics in 1994 like never before," he says.

Thomas Mann, director of governmental studies at the liberal-leaning Brookings Institution, in Washington, says the thrust presented by the House GOP freshmen is "anti-government, anti-regulation," and "much less inclined to big business than to small business." He adds: "It's almost populist in getting the professionals out of politics."

That kind of anti-government thinking was articulated in the Contract With America, the 1994 House Republican campaign document that set the agenda for the first few months of the 1995 House session.

Larry Sabato, a professor of government at the University of Virginia, in Charlottesville, says it's not surprising that many small-business owners and operators ran for office as Republicans. "Small-business and entrepreneurial types tend to back the Republican Party," he says. The 1994 election wasn't the beginning of a small-business role in politics, he adds, but it was "an acceleration."

Sabato also believes the small-business emphasis is good for the whole party: "Economic conservatism is perhaps the most unifying part of the GOP platform."

Although the small-business thrust among the House freshman class represents an electoral watershed, it isn't the first sea change in Congress in recent times. Elections in 1964, 1974, and 1980 produced large numbers of new lawmakers who helped change the direction or the priorities of government.

Their Jobs Back Home

Occupations Of U.S. House Members

	1953-54*	1975-76**	1995-96
Agriculture	53	31	20
Business/Banking	131	140	162
Medicine	6	5	10
Education	46	64	75
Law	247	221	171
Journalism	36	24	15
Other	5	13	25

* This session of Congress was the last—until 1995-96—that the Republicans controlled the House.

** This session includes the post-Watergate class of Democrats elected in 1974.

Totals exceed 435 because some members listed multiple occupations.

SOURCE: VITAL STATISTICS ON CONGRESS, 1995-96

CHART: MICHAEL ROOK

After only a year or so in office for the House freshmen, their lofty goals have been frustrated. Many items were either watered down or killed in the Senate, trapped in House-Senate conference committees, or vetoed or opposed by the White House.

The House Republicans kept their promise of bringing every item on the agenda to a vote, and the House in fact passed at least one major element of all but one Contract item—term limits. But few of the measures have become law.

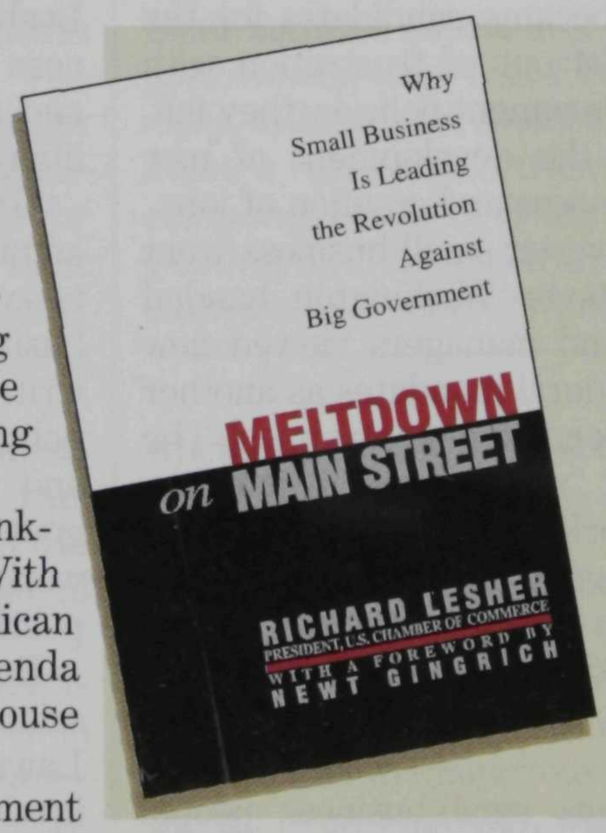
A modified version of the line-item veto was finally passed and signed into law and will become effective for eight years beginning Jan. 1. Business-backed regulatory-reform measures, dealing with the right to take federal agencies to court and giving Congress the authority to review rules before they are issued, were also enacted. In addition, the earnings limit for Social Security recipients was raised.

Still bottled up or on the sidelines are some of the pillars of the Contract: welfare reform, which Clinton vetoed; comprehensive regulatory reform, blocked in the Senate; tax cuts for families and businesses, still not agreed upon by Congress and the White House; a balanced-budget amendment to the Constitution, still shy a few votes in the Senate; and a bill to limit product liability, vetoed by Clinton.

This spring, Republican lawmakers have been trying to resolve differences—among themselves as well as with Democrats—on certain issues so they can highlight some achievements as they head for the campaign trail. Among items that could emerge: a consolidation of federal job-training programs, an overhaul of immigration policies, and health-insurance reforms.

However, organized labor, the newly energized player on the political scene, could sideline the unfinished agenda and end the Republican majority in Congress.

Labor's agenda is most commonly identified with the "America needs a raise" theme offered last fall by AFL-CIO President John J. Sweeney when he took over the federation after insurgents forced out labor's old guard. In addition to raising the minimum wage, the unions' plan includes blocking efforts to reform various laws



Richard Lesher's book, *tracing the roots of the 1994 political revolt by small business, is available in bookstores nationwide or by calling the publisher at 1-800-253-6476.*

affecting labor relations and the workplace, including health and safety laws and restrictions on labor-management relations.

The AFL-CIO also is imposing an emergency assessment on its 13 million members to help fund a $35 million campaign war chest aimed at ousting pro-business House Republicans. Most of the presumed targets are freshmen who voted in favor of the business position at least 80 percent of the time on issues selected by the U.S. Chamber of Commerce in its "How They Voted" ratings for the first session of the current Congress.

The AFL-CIO also made its earliest presidential endorsement ever, for Clinton.

To counter the labor federation's effort, business groups have formed a coalition, which includes the U.S. Chamber, to help pro-business candidates and explain the business position on the issues.

The Chamber's Lesher believes that organized labor's legislative agenda is simply out of sync with reality because it hasn't kept pace with the changing workplace. "Unions devote most of their time and energy to campaigning for higher pay, more-generous benefits, and restrictive work rules that make it ever more difficult for management to respond to new challenges and technologies," he writes.

But business and labor won't be the only big players on the political scene this year.

The National Republican Congressional Committee, which raises House GOP campaign funds, says that so far this year about 50 to 60 percent of the candidates who have expressed interest in running for the House as Republicans have a small-business background or are familiar with small-business issues.

Of the 74 freshman House Republicans, all but one (Enid Greene of Utah) are running for re-election.

Meanwhile, the Democratic Congressional Campaign Committee is confident that it can field candidates strong enough to win back the House. But it is making no special effort to seek out small-business candidates.

Although there's sympathy in the Senate for small-business concerns, the small-business revolution has yet to make a big mark there; every two years only one-third of the seats are up for election.

But both parties have small-business-oriented candidates for the Senate, who have either won an early nomination or are seeking nomination. There are 13 open seats in the Senate.

Whether small business can hold on to its 1994 gains remains to be seen, but the populist agenda that small business has brought to Congress isn't likely to disappear.

"I wouldn't be surprised to see this grow over time," says Mann of the Brookings Institution. Loomis of the University of Kansas agrees, saying the debate in Congress has moved so far in the Republican direction that what will eventually emerge from Capitol Hill will reflect GOP thinking much more than in the past.

Nonetheless, the agenda that has dominated the 1995-96 Congress so far has taken quite a beating from Democrats and their allies, and more of the same can be expected later this year.

The Chamber's Lesher warns in his book that the "unremitting assault" should not be allowed to wear down those who support the small-business movement and its agenda.

"In the present crisis," he writes, "it is up to business—and especially small business—to redouble our efforts to elect and re-elect pro-business candidates across the board until the small-business revolution is a done deal." NB

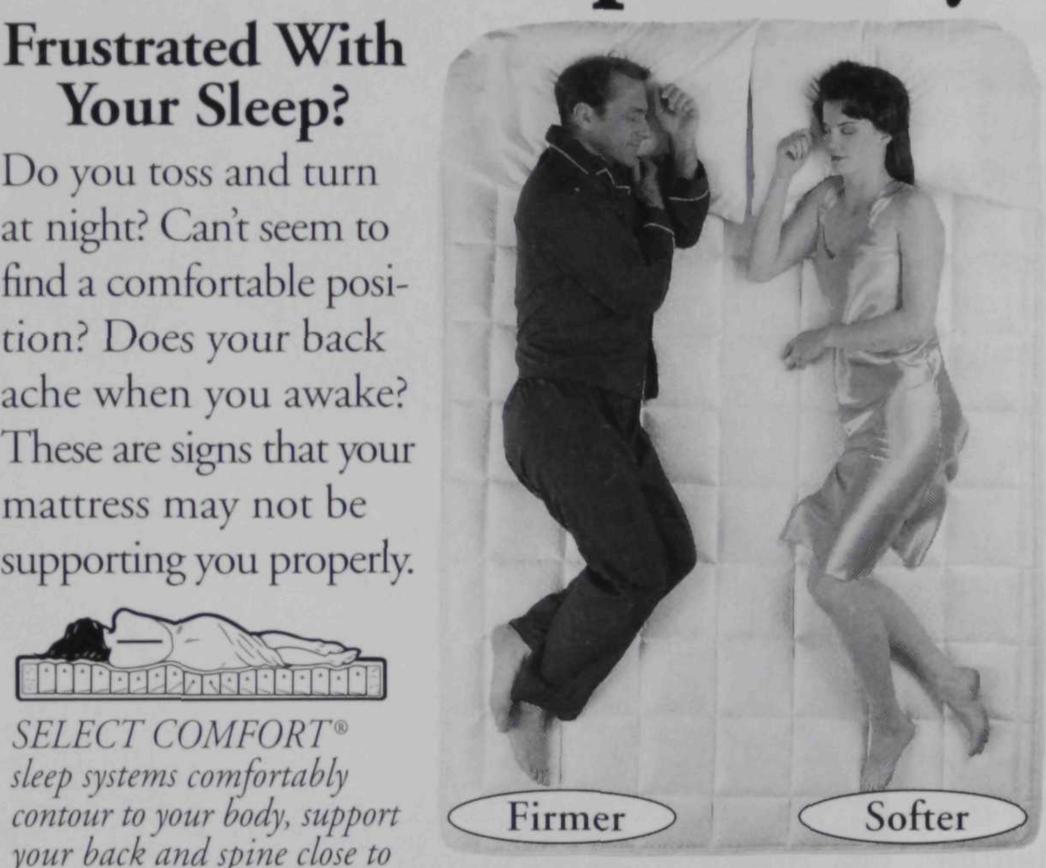
How To Obtain The Book

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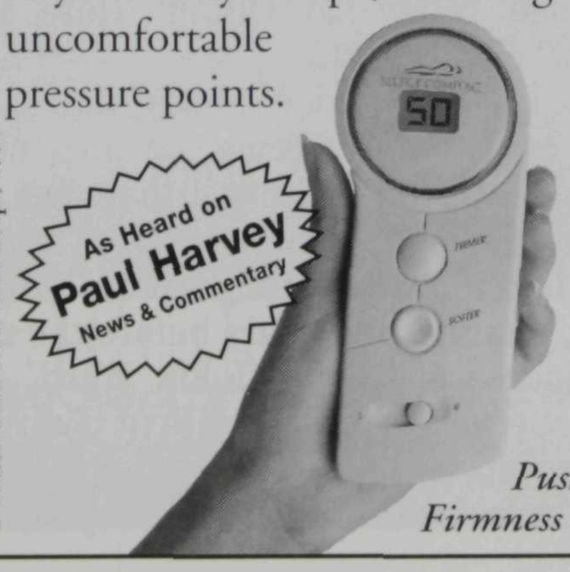
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MANAGING

Postal Changes Raise The Stakes

Small firms are assessing the effects of a new rate structure favoring companies that prepare large volumes of mail for automated processing.

By Laura M. Litvan

Most businesses that send mail—whether it's bills, periodicals, circulars, or coupons—will see their postage costs change July 1, when the U.S. Postal Service implements what it says are the most sweeping changes in mailing rules since the days of the pony express.

The Postal Service, which has invested heavily in high-tech mail-sorting equipment in recent years, won approval of a new rate structure in early March.

The structure grants deep discounts to companies that prepare large quantities of mail delivered to the post office in a condition that permits fully automated processing.

But it also means price increases for small-volume mailers who do little or no preparation work before dropping off mail at the post office.

While small-business owners have been scrambling in recent months to find ways to qualify for at least some of the discounts, many residential postal customers may not even be aware that big changes in postal rates are on the way. The reason is that the price of a first-class stamp will remain at 32 cents for the first ounce of an item mailed.

For business, however, the stakes are high. Costs will change only a penny or two for most pieces of business mail, but when a company mails hundreds—or hundreds of thousands—of items regularly, those pennies can affect the firm's bottom line dramatically.

The rate changes are designed to encourage mailers to take part in the practice known in postal jargon as "work sharing." The purpose is to bypass as many labor- and cost-intensive mail-handling operations as possible. Companies that begin taking such steps as bar-coding their mail, presorting it by destination, and verifying the accuracy of addresses every six months will generally find that their prices will drop by 1 to 2 cents per piece.

Work sharing includes placing nine-digit ZIP codes on items in a form that can be read by bar-code scanners at the post office and sorted quickly for delivery. It also includes presorting items by destination so that bundles can be forwarded to a post office near the final delivery point.

To qualify for the deepest discounts, businesses must have a high density of mail going to the same ZIP codes. (For additional details on the new rate structure, see "How To Obtain Rate Discounts," on Page 34.)

The Postal Service hopes that as a result of the new pricing scheme, more mail will be in formats that can be processed cheaply and quickly. "The bottom line is—hopefully—more days, weeks, months, and years before the next rate increase," says John Ward, the Postal Service's vice president for marketing systems.

The new rates were set after a yearlong process that began in March 1995, when the Postal Service proposed the changes to the independent Postal Rate Commission. (See "Businesses Eye Postal Rate Plan," December 1995.)

In late January, the commission recommended a modified rate plan to the Postal Service's Board of Governors. The board approved most of the commission's recommendations in early March.



PHOTO:©CHARLES KNEYSE—BLACK STAR

Even the smallest firms *might be able to find ways to save under the new postal rate structure, says consultant Jack Davis, president of CCS Group, Inc.*

Some small companies plan to hold off a bit before they make mailing changes, however. At Sunrise Resort, a 160-room inn in Moodus, Conn., the family owner-managers are going to wait until next spring—when they will mass-mail brochures to attract bookings for the summer tourist season—before they begin bar-coding mail, says Laura Johnson, the resort's vice president for advertising.

Her company probably will need to invest in software that produces bar-coded mailing labels, and she wants to delay the purchase in the hope that software prices will come down in the coming year.

In the meantime, she says, she will review her firm's mailing list to weed out less-likely sales prospects. "I need to spend my time thinking about who will make a good customer," Johnson says.

Many small businesses that have relatively low volumes of mail and diverse mail destinations will find it difficult to qualify for lower rates.

Nonetheless, mailing consultants say there are options that even the smallest firms can explore to increase the chances that they will save rather than pay more. Consultant Jack Davis, president of CCS Group, Inc., in Leawood, Kan., advises that small firms consider the following:

Start with guidance from the Postal Service.

The Postal Service operates 85 busi-

808 Mancuso's Small Business Resource Guide contains names, addresses, and telephone numbers of key small business resources. Get answers about venture capital, on-line services, home-based businesses, partnerships, legal services, and more!

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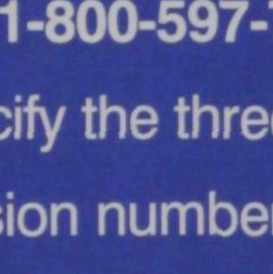
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ness centers across the country where managers of small companies can get help in understanding how to qualify for discounts. "They offer a tremendous amount of help and literature," Davis says.

Services provided include a customized analysis of how the new rates will affect a firm's postage costs and a variety of free publications and referrals to vendors with mailing-related products and services.

You can find the phone number for the business center nearest you in the Blue Pages of your telephone book.

Consider using technology to help prepare mail.

Businesses can buy mailing-list software that produces mailing labels with bar codes. Commonly, such software programs also can help with presorting because the labels come out of a printer already grouped by ZIP code.

The prices of these software packages vary widely according to their capabilities, so small firms need to explore the market to find a solution that fits their needs.

Also, use of another type of software—called a "coding accuracy support system," or CASS—is crucial to being able to qualify for discounts. Companies must check their mailing-list addresses against a national ZIP-code database every six months. (Under the old postal rules, this procedure was required only once a

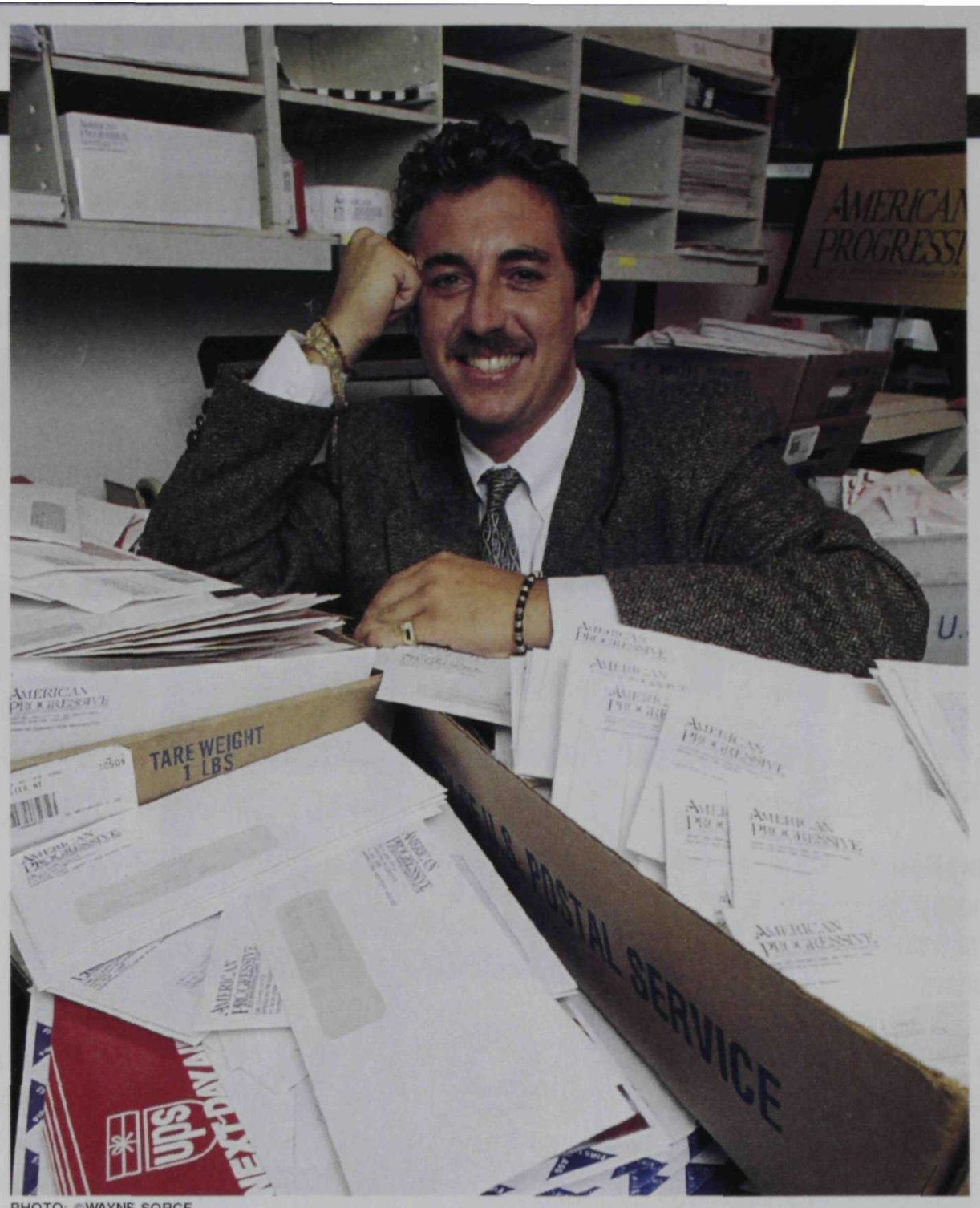


PHOTO: ©WAYNE SORCE

Mailing in larger groups *would help his company qualify for lower postal rates, says Rodney Hyatt, office-services manager for a small life- and health-insurance company.*

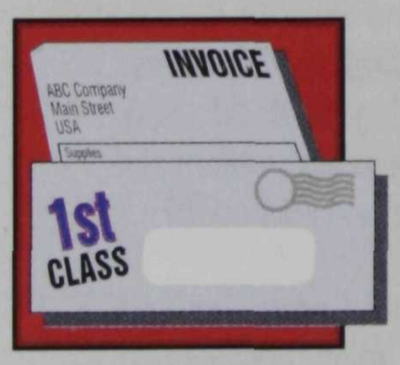
How To Obtain Rate Discounts

Here's a snapshot of what will be necessary for many small firms to obtain mailing discounts under the three main classes of business mail:

First-Class Mail

This is the class of mail used to send personally addressed items such as letters and customer bills.

A first-class stamp will still cost 32 cents for the first ounce of mail, but business mailers sending bulk first-class mailings—500 pieces or more—will see their costs rise or fall a couple of cents an ounce, depending on how much they do to prepare their mail before giving it to the U.S. Postal Service.



To qualify for the better rates, a company must be sending a high density of mail to the same geographic areas. That's because a mass mailing must be broken out into bundles of items that share at least the same first three digits of their ZIP codes, with no fewer than 150 items in each grouping.

Every item must bear a destination-point bar code, and the company's mailing list must be checked against a national address database—widely available on computer CD-ROM—every six months to verify that address information is accurate. (Under the previous postal rules, such a check was required of mailers once a year.)

Companies that do all these things will see their costs drop by about 2 cents an ounce. But firms that only presort their mail and don't use bar codes will see their costs climb about 2 cents per ounce compared with current discounted rates.

Second-Class Mail

This class of mail, generally used by magazines and newspapers, is being renamed "periodicals mail."

Rates for this mail are the most complex of the three major classes of business mail.

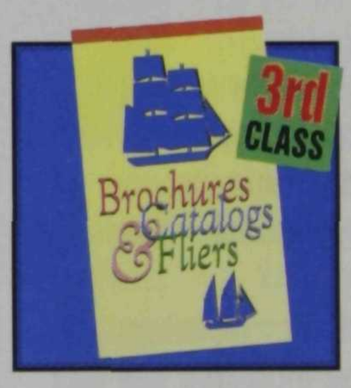


Under the new rate system, about 800 publications with large, concentrated circulations and that meet bar-coding, presorting, address-accuracy, and other requirements will see their costs drop an average of 3.7 percent.

Meanwhile, about 11,000 other publications of all sizes will see their costs rise about 3.5 percent.

Third-Class Mail

This class is used to send bulk quantities of promotional items, such as brochures, catalogs, and fliers, and it is being renamed "standard mail." All mailings in this category must include at least 200 pieces or weigh at least 50 pounds.



Companies that prepare their mail for automated processing will generally see their prices drop by about 1 to 2 cents per piece. To qualify, however, companies must bar-code items, presort them by destination, and verify address accuracy every six months.

Prices improve if a company has a mailing that will be delivered to every house on a particular postal carrier's route, presorted in house-to-house order. Also, companies that drop off mail themselves at a postal distribution site close to the final destination of the mail can shave costs a bit more.

Companies that simply presort items by destination and don't use bar codes on their mail will see their postage costs climb by about 2 to 3 cents per item compared with current prices.

Marvin Runyon's Postal Priorities

Many people in business regard the U.S. Postal Service as one of the nation's most entrenched bureaucracies. In his four years as postmaster general, Marvin Runyon has spent much time trying to stamp out that perception.

"Without question, we're big business," he told the New York Society of Security Analysts, a Wall Street group that often has corporate executives speak at its events. After jokingly assuring his audience that no hostile takeover of the Postal Service is imminent, he compared his organization to major corporations. "We've got the brand equity that goes with business success," he said last fall, citing research that shows the Postal Service is second only to the Coca-Cola Co. in terms of recognizability among consumers.

He also noted that the organization's $54 billion annual revenue stream outpaces that of all but 11 U.S. corporations. "I believe the Postal Service has become a business—one that provides all Americans with a necessary public service," he said.

Striving For Leanness

That message is Runyon's mantra. Since taking his post in May 1992, he has made the case for changes that might help a federal department born in the Colonial era operate more like a lean 1990s corporation.

The recent reclassification of postal rates, designed partly to cut costs for large-volume mailers who might otherwise use competing forms of delivery, is just a portion of his effort to make the Postal Service more competitive, he says. In a recent interview with *Nation's Business*, Runyon said his next priorities include expansion into overseas markets, introduction of new electronic services for e-mail users, and securing the easing of rules that govern postage rates. "We would like to be able to come up with a new product on a trial basis and then simply price it" and implement it, he said.

Runyon was an executive with Ford Motor Co., in Detroit, before leaving in 1980 to become CEO of Nissan Motor Manufacturing Corp. U.S.A., based in Smyrna, Tenn. He also has experience steering an organization with ties to the government. From 1988 to 1992, he was chairman of the Tennessee Valley Authority, which operates dams, reservoirs, and an electric-power program in seven states.

"Where I come from, there are three criteria that entitle someone to new business: quality, price, and delivery," says Runyon of his days in the auto industry. "If you're the best in all three of those, you get the business. But that's not exactly the way we work" at the Postal Service, he says. "We're trying to change our culture."

Hobbled By Constraints

But there are obstacles to changing the culture. Congress established the Postal Service as an independent agency within the federal government in 1970, essentially making it responsible for paying its own way, although the agency still receives a relatively small federal subsidy for such services as free mail for the blind.

The agency is hobbled by constraints, however. One is the requirement that it provide universal service—mail delivery everywhere in the country at the same price. Also, because the Postal Service still has a monopoly on delivery of first-class and addressed third-class mail, it has a strict rate-making process that reflects that power. The 1970 Postal Reorganization Act requires a 10-month review by the independent Postal Rate Commission before rates can be changed.

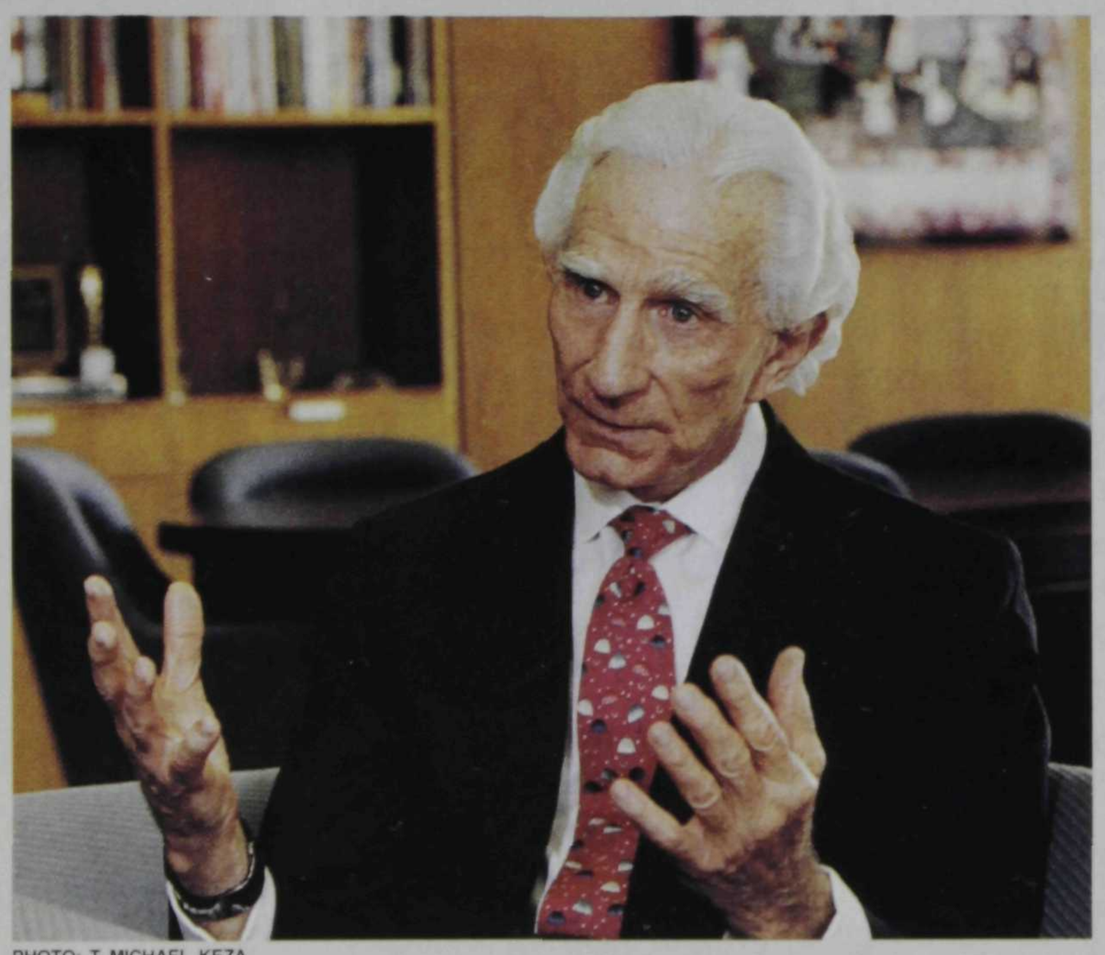


PHOTO: T. MICHAEL KEZA

The recent rate restructuring *should help make the Postal Service more competitive, says Postmaster General Marvin Runyon.*

In addition, more than 80 percent of the Postal Service's costs go toward salaries and benefits for its 729,000 employees, a factor that has largely driven postage-rate increases. The 1970 law mandates binding arbitration of labor disputes between the Postal Service and its four labor unions, which has continually led to wage hikes.

Turning To The Hill

In coming months, a chief focus for Runyon will be Capitol Hill, where House GOP lawmakers are expected to introduce legislation to overhaul the Postal Reorganization Act.

While some recent House hearings focused on a wide range of postal issues, Runyon says key GOP lawmakers have indicated their legislation will center on pricing flexibility rather than labor costs. He says his chief goal, then, will be to try to obtain a new, streamlined process for offering new products and altering prices.

Regulation of postal rates, he suggests, should be limited to monopoly areas, like first-class mail, with rates there tied to inflation. In other areas, he wants the Postal Service to set its own prices and be empowered to move immediately with new offerings—even if that means providing discounts for individual mailers who might otherwise turn to alternative forms of delivery. "On nonmonopoly products, where people have a right to buy from us or a right to buy from somebody else, we ought to be allowed to compete," he says.

Looking Overseas

But as debate over that issue plays out, the Postal Service will be pushing more into delivering U.S. business mail in overseas markets. International mail accounts for only about 1 percent of Postal Service revenues now, but Runyon says consumer demand for U.S. products in Japan, Mexico, Great Britain, and Germany makes those countries ripe for mail revenue growth.

Also, as the Postal Service warily eyes the expanded use of the Internet, it is planning some ventures into electronic services, he says. For example, this summer the Postal Service will introduce a service that will provide a "postmark" for e-mail messages. The idea is to provide independent verification that a particular message was sent to someone on a particular day.

Ultimately, Runyon's vision for the Postal Service places a strong emphasis on developing new products and improving existing ones. Boosting revenues by stretching in new directions could help stem future rate increases, he says. "We need to get into more products," he says. "We also need to improve the products that we've got so that we can increase sales on those, because I'm very concerned about what is going to happen to the Postal Service if this World Wide Web really kicks in."

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year.) This computerized database is widely available on CD-ROM, and some packages cost less than $100, Davis says. Vendors who sell CASS packages are certified by the Postal Service.

In addition, some computer service bureaus will apply this software to a company's mailing list for a small fee, Davis says.

These bureaus are commonly listed under "Computer Services" in the Yellow Pages.

Consider using a presort bureau.

There are about 150 companies in the United States that, for a penny or less per mailed item, will presort and barcode bulk business mailings.

Generally, these presort bureaus like to work with firms that mail at least 500 pieces at a time, but Davis thinks they may begin to pursue smaller-volume mailers more aggressively.

Ultimately, these firms can be a very good choice for small firms that mail relatively small numbers of items and have no mail rooms of their own. Presort bureaus increase these firms' chances of qualifying for discounts because they can commingle mail from many companies to form a high volume of materials. "They are the salvation for small businesses," Davis says.

Think through how efforts to qualify for discounts will affect the entire company.

Mail comes from every department in a company, but many small firms forget this when they plot strategies to qualify for discounts, Davis says.

One common mistake is to neglect to involve the marketing department, he says. Every promotional brochure a company designs needs space at the bottom for a bar code—even if the bar code won't be put in place in-house or by a vendor.

When the Postal Service receives mail that has to be bar-coded and doesn't have sufficient space for the code, it places white stickers on the bottom of the items and prints bar codes on them. In some instances, this practice could result in covering up a phone number or other important information on the promotional item.

In addition, Davis suggests that companies teach employees about the mailing-rate changes just as they would teach them about a new phone system. Employees throughout a company might benefit from a brief seminar and a small manual describing any company policy changes that are occurring in light of the new rates, he says.

Also, companies that have in-house mail rooms need to provide in-depth training about the changes for mail-room workers, particularly if newly adopted technologies might change their jobs.

"All of a sudden, the mail-room guy has a chance to have an impact on company costs. He's going to be the most popular guy on campus for a while."
—Consultant Jack Davis, CCS Group, Inc.

"All of a sudden, the mail-room guy has a chance to have an impact on company costs," Davis says. "He's going to be the most popular guy on campus for a while."

Many managers of small companies are learning that the changes will make an impact far beyond their mail rooms, affecting other departments such as data processing, marketing, and accounts receivable.

For example, in Brewster, N.Y., managers at a small life- and health-insurance company have been discussing whether they should continue mailing a small number of customer bills each day, which assures a steady cash flow, or should shift to sending bills in big groups once a week or even once a month.

Rodney Hyatt, manager of office services at the firm, American Progressive Life and Health Insurance Company of New York, says that mailing in larger groups would help the company qualify for lower postage rates. He says it could be a year before the firm fully understands how the rates will affect its costs.

During that adjustment period, the company will discuss how to build cooperation between the mail-room and data-processing staffs at the 75-employee company. He says a closer relationship is needed because mail rooms increasingly use computer technology to bar-code their mailing labels and perform other work-sharing tasks.

But in the short term, at least, it will be awfully hard for the firm to qualify for discounts, even though it mails about 1,000 items daily, Hyatt says.

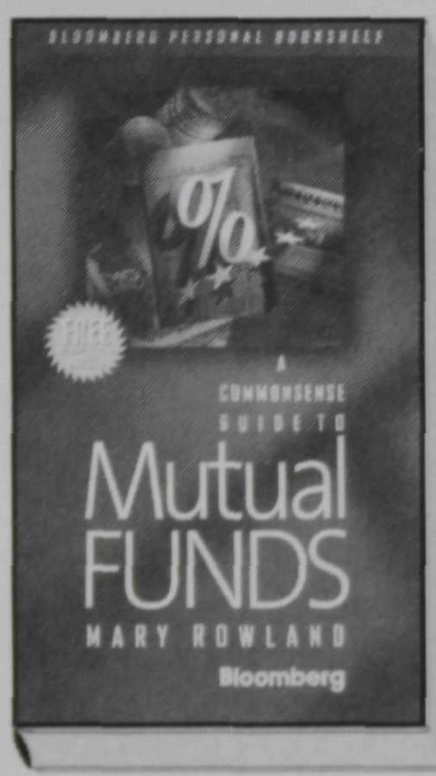
For small businesses willing to do whatever they can to keep their mailing costs down, however, following the Postal Service's guidance and putting in extra effort to prepare their mail could well be worthwhile. At a minimum, small companies should consider experts' advice on how to save. NB

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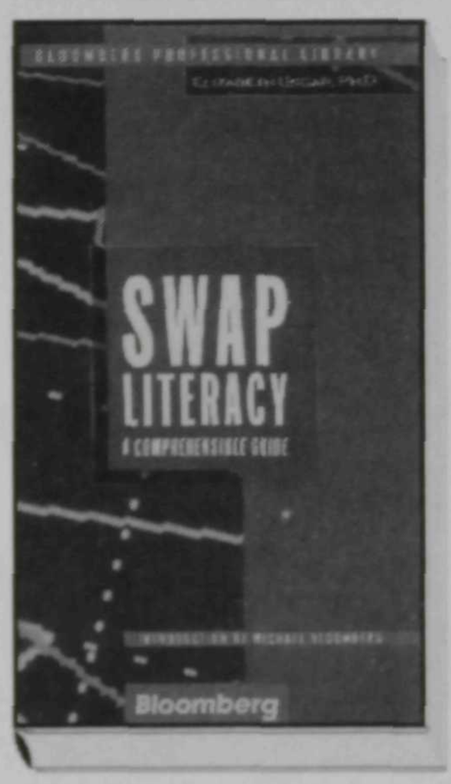
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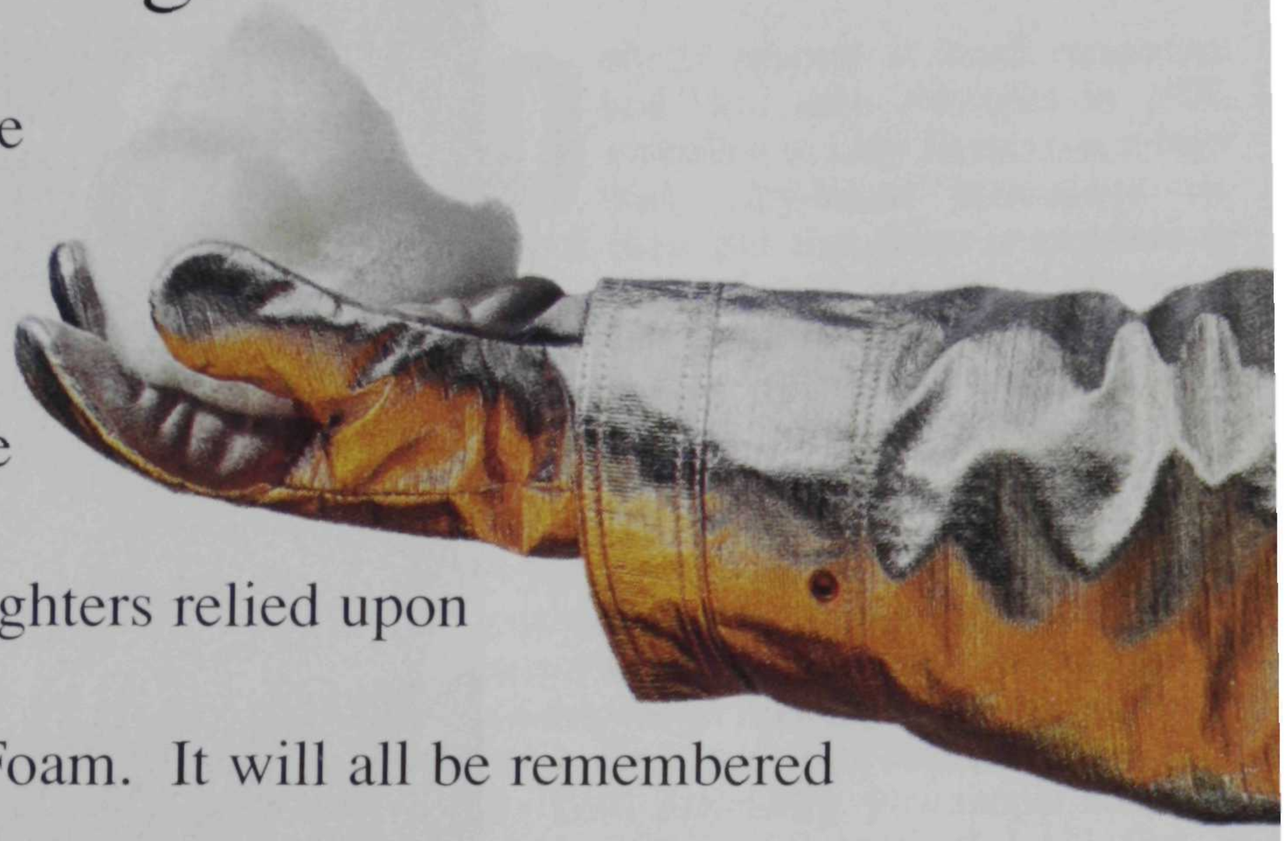
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SMALL BUSINESS COMPUTING

The Well-Tailored Computer Network

Small firms should focus on business needs, not just technology questions, when setting up a network for their computers.

By Tim McCollum

For Linda Snyder's business to succeed, her network of computers has to function flawlessly. If the network breaks down, her company's operations break down with it.

At Snyder's LBS Associates, in Elkton, Md., nurse paralegals research product-liability cases, and they must have quick access to legal documents stored on the hard drives of computers connected by a local area network, or LAN. Employees have to be "able to talk to each other" by computer, Snyder says.

Until 18 months ago, network problems were common. If any computer crashed, LBS Associates' entire network of 20 computers went down. When a crash occurred, Linda's husband, Brad, the firm's part-time computer technician, would work long hours to get the system running again.

To reduce the problems, the Snyders decided to rebuild their network from scratch. Brad replaced the company's old network operating system with Microsoft Corp.'s Windows for Workgroups software. It is one of several network operating systems designed for small peer-to-peer networks, which allow multiple users to share documents, printers, and modems. The network is now far less vulnerable to crashes by individual workstations, and downtime has been cut significantly.

The Snyders' experiences with networking their computers have taught them what a growing number of small-business owners are finding out: A local area network may promise increased productivity by giving employees fast, direct access to computer resources and files, but implementing a network can be costly—and frustrating.

When the Snyders switched to the second network, for example, they essentially lost their investment in the original network operating system and hardware. The computer downtime that workers experienced before the switchover hurt the business, and the time that Brad spent trying to keep the old network operating was mounting.

After a network is installed, a company can be frustrated by the results if it gave inadequate attention to its core business needs when it chose the network in the first place.

"The main problem that I've found is that small companies treat networking as a technology exercise and not as a business exercise," says Michael Dortch, author of *The ABC's of Local Area Networks* (Sybex, $19.95). "The important first step is to ask business questions such as 'How much is it going to cost me?' and 'How is it going to help my business?' "

There is a strong temptation to view networks as cure-alls for businesses, but Dortch says networking should be treated as a major strategic decision that will affect the way a company operates.



PHOTO: T. MICHAEL KEZA

Computer downtime *has been cut significantly at Linda Snyder's medical-research firm since her husband, Brad, rebuilt the network.*

Only 18 percent of small companies had local area networks in 1995, according to Link Resources, a New York City-based technology research firm. But that share is expected to grow to more than 25 percent by the end of the decade, according to Link. Among small businesses, the number of networked personal computers is expected to rise from about 6.6 million in 1995 to more than 11 million in 2000.

A LAN consists of a group of computers connected with cabling and managed by network-operating-system software. A peer-to-peer network (also known as a work-group network), such as the one used by LBS Associates, is a simple and relatively inexpensive type of LAN that is appropriate for many small offices.

More-robust client/server networks use a dedicated computer, called a server, to coordinate network functions such as the sharing of documents, databases, and applications as well as the sharing of peripheral hardware such as printers.

Because of their cost and complexity, LANs—and especially client/server networks—have been slow to catch on with small companies. Such firms typically don't have on staff anyone with the hardware and software expertise needed to implement a LAN.

"The one thing that really differentiates small companies from large companies is that they really need networks to be easy to work with," says Ed Bartos, general manager of the small-business-networks unit of Novell Inc., a software company in Provo, Utah. "They need to make this work without a lot of technical expertise in-house."

Lacking such expertise, some small companies become saddled with networks that don't meet their business needs. For exam-

ple, Casafina, a New York City importer of giftware, set up a LAN seven years ago so that a small number of employees could use a networked accounting-software system. Casafina owners Donna and Skip Smith purchased Novell NetWare Lite, a network for work groups that was designed for small businesses.

NetWare Lite wasn't intended to work with complex network applications such as the accounting system, however. Rather than have Casafina switch to a more compatible network, the vendor who had sold the NetWare Lite software tried to modify it so it would work with Casafina's accounting system. But that didn't solve the compatibility problem.

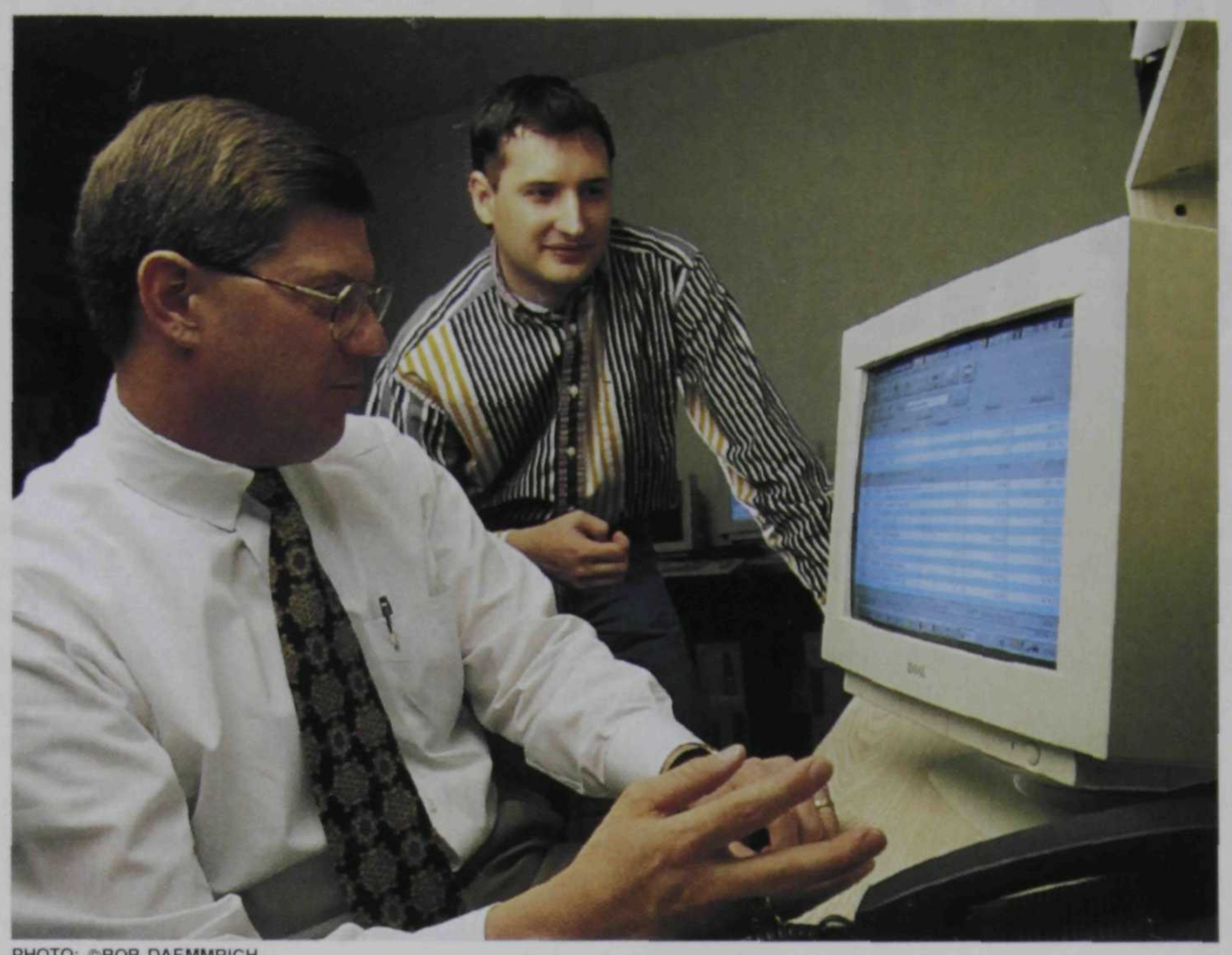


PHOTO: ©BOB DAEMMRICH

Productivity *improved at First Waco National Bank after installation of a client/server network, says CEO C. Sam Smith, reviewing the results with network administrator Stephen Kehl.*

The Smiths called the accounting-software company, SBT Accounting Systems Inc., in San Rafael, Calif., and SBT referred them to an independent consultant—System Solutions, in West Harrison, N.Y.—that was familiar with their software.

Len Dashnaw, owner of System Solutions, recommended scrapping the old network and building a new Artisoft Lantastic network that was capable of supporting the accounting system. By installing Lantastic, Casafina has experienced less downtime and has had an easier time managing its network.

"Because he was familiar with the [accounting] software, he suggested a better way to network it," says Skip Smith.

Situations such as Casafina's are commonplace: Problems come down to companies setting up networks before they know enough to do so.

Author Dortch says small-business owners can tap a great deal of information about networking from computer magazines, books, on-line sources, and local computer-user groups. He says small-business owners can employ a different type of "peer-to-peer networking"—learning from other companies' experiences in setting up LANs.

The most successful cases are those of small companies that tailor their networks to their business, as First Waco National Bank, in Waco, Texas, has done.

Like many small banks, First Waco has had to invest heavily in computer hardware and software systems to try to keep up with much larger competitors. Over the past four years, First Waco's network has become the hub of its banking operations, connecting 52 computers at its headquarters to an IBM AS/400 minicomputer.

The client/server network contains financial and spreadsheet applications for the bank's credit and lending departments, as well as programs for funds management, signature verification, forms automation, word processing, and group scheduling.

First Waco's CEO, C. Sam Smith, says the network has helped improve the bank's productivity and customer service and has enabled it to develop new computer-based products such as home banking.

Even so, the bank has watched for ways to improve the network as its needs have grown. For example, two years ago, First Waco switched to Microsoft's new Windows NT Server network operating system,

What's In A Network?

The nuts and bolts of networking can be somewhat befuddling for computer novices. Following are a few basics that can help a small-business owner make a wise decision about implementing a local area network, or LAN.

At its most basic, a LAN is a group of computers connected physically by fiber-optic, coaxial, or twisted-pair cable. Computers in the LAN also are joined by a network operating system, which can reside either in a dedicated computer, called a server, or in each workstation.

The network operating system facilitates file management, including security, and sharing of application software and hardware resources such as printers and scanners.

Networked computers do not have to be identical. In fact, they can be almost any mix of IBM-compatible PCs running the DOS, Windows, or OS/2 operating systems, Apple Macintoshes, and even UNIX workstations.

Hardware

Each computer on a network must contain a network interface card—or adapter card—often referred to as an NIC. This device physically sends and receives data over fiber-optic or various other wire cables to network destinations.

The type of card and cabling a company should choose depends on the network communications technology selected—generally Ethernet or Token Ring.

These days, a network with a dedicated file server generally includes a piece of hardware called a hub. Each computer's NIC is connected to the hub by a cable; the file server also is cabled to this device. Networks without a server, called peer-to-peer or work-group networks, may not need a hub, as computers can simply be "chained" to one another using cable. In this case, data can be relayed from computer to computer. However, the network can break down if any one computer on the network isn't working.

Software

The network operating system software is the engine that allows computers on the network to interact. Among the most common network operating systems used by small businesses are Novell NetWare, Microsoft Windows NT Server, Microsoft Windows for Workgroups and Windows 95, and Lantastic from Artisoft Inc., of Tucson, Ariz.

NetWare and Windows NT require a dedicated file server to provide network services for "client" workstation comput-

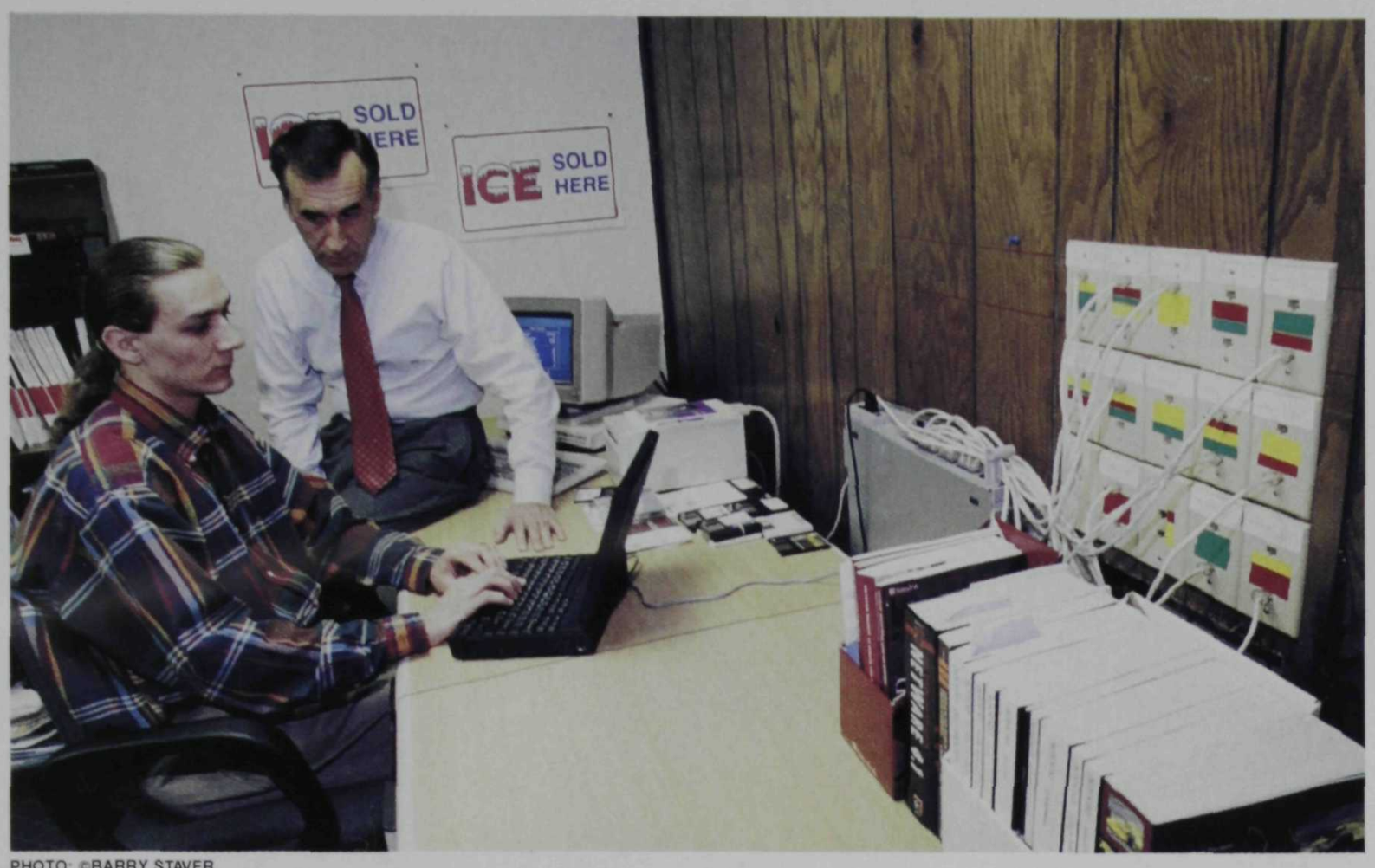


PHOTO: ©BARRY STAVER

For installing *a network operating system at his firm, which makes cold-storage facilities, Alan Gorden tapped the expertise of his son Eric, who has worked with computers since age 7.*

largely as a means of standardizing around its core Microsoft Office software for word processing, spreadsheets, presentation graphics, and group scheduling.

"We made a commitment to go with a pure line of products," Smith says. "When we built the LAN, we decided to stay with Microsoft. When NT came out, we let that commitment lead us."

In addition, Smith says Windows NT worked better with the AS/400 than the old network operating system did. The old system required each desktop computer to have a network adapter card specially made for connecting to the AS/400. Smith says the money the bank saved by trading in the cards was enough to pay for the new software: The whole upgrade cost about $10,000.

Tour Ice National Inc., of Colorado Springs, Colo., followed a similar approach in converting its old mainframe-computer-based network to a PC-based LAN. The family-owned firm, which designs and manufactures cold-storage facilities, needed a client/server network that would run its SBT Pro Series accounting software and its AutoCAD engineering-design software, by Autodesk Inc., another San Rafael firm. The LAN would also have to connect 21 computers at the company's headquarters as well as field salespeople dialing in by modem.

Fortunately for Tour Ice owner Alan Gorden, there was a networking expert on staff: his 25-year-old son Eric, who has worked with computers since he was 7.

"Our main problems were communication and data sharing," Eric Gorden says. "What we were trying to do is empower some of our employees, allowing them to bring up engineering data and sales statistics on their own."

With the help of local software reseller Colorado Software Solutions, Eric compared different network operating systems to see which would work best with the AutoCAD and SBT software. He chose NetWare, partly because it is the most widely used network operating system.

Eric installed the network himself, including software, cabling, and replacement of the old mainframe terminals with new Pentium computers. Tour Ice's total investment was $150,000.

Most small-business owners don't have a computer expert in the family, much less on the payroll. Small companies typically hand the job of deploying and managing their local area network to the person on the staff who has demonstrated the most computer aptitude, and not always with good results.

Many small firms have turned to computer resellers, system integrators, and independent consultants to set up their networks. These providers will sell the software and cabling needed and install the network; some also provide maintenance. Author Dortch says the trick is to find someone who both knows networking and is mindful of a company's business needs.

Small businesses are also turning to these outside experts to manage their networks. Many small companies are reluctant to hire a full-time person for that task, yet they are equally wary of contracting with a consultant or system integrator who might not be quick to respond when there is a problem.

How a company manages its network is a decision that will likely be based on the size and complexity of the network and its importance to the operation of the business.

Such staffing decisions underscore the importance of making network plans part of a company's overall business strategy. By design, a network is supposed to make it easier for a company to do business. Without the right planning, though, that business could be headed for a crash. NB

ers. Windows for Workgroups and Windows 95 as well as Lantastic are for less robust peer-to-peer arrangements in which all computers function as both clients and servers.

Apple Computer Corp.'s operating system also features peer-to-peer networking capabilities for companies with all-Macintosh networks.

Cost

The cost of networking includes both the start-up costs of cards, cabling, server hardware, network-operating-system and client software, and installation, plus the ongoing costs of hardware and software upgrades, adding users, and maintenance.

The start-up cost for a 10-user dedicated server network would run from $1,000 to $2,500 for software and $25 to $150 for each network-interface card.

Cable installation costs $75 to $250 per networked computer, depending on the type of cable that is used.

Although any standard desktop computer can be used as a low-power server, specially engineered network servers, which are much more robust and reliable, are available starting at around $3,000. Software for a 10-user peer-to-peer LAN costs around $900.

Regardless of the type of network you choose, a network backup drive is recommended to ensure that your data will be protected. Prices start at about $700 for an 8-gigabyte drive, plus $800 for backup software.

Personnel costs will add significantly to the bill. Consultants charge $50 to $150 an hour for installation and maintenance, generally with a minimum charge of two hours or more.

Qualified full-time network administrators typically earn $40,000 to $50,000 per year or more, depending on their education and experience.

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TRENDS

The Hot Zones For Entrepreneurs

High technology, exports, retailing, and services are some of the areas where the action is expected to sizzle into the next millennium.

By Laura M. Litvan

As much as anything else, launching a successful business requires being in the right place at the right time. Thus the successful entrepreneurs in 2000 probably will be those who have been able to identify and capitalize on the trends sweeping the late 1990s.

Experts who track the growth of start-up companies say some of the strongest opportunities over the next few years will stem from corporate America's continuing efforts to become leaner by adopting tactics such as contracting out to smaller firms.

An aging population and the continued growth of dual-income families, the experts say, also will offer lucrative openings for entrepreneurs who can serve the medical needs of the elderly or offer timesaving and child-care services for busy parents.

But by far the best growth areas for business, several trend-trackers note, are the high-technology fields. "You can look around and tell that information technology is an extremely hot area," says Pete Collins, director of entrepreneurial advisory services for Coopers & Lybrand, an international accounting and consulting firm.

"The growth is in the high-tech areas," says Larry Winters, assistant vice president of small-business and express services at Dun & Bradstreet Corp., a business-information company in Wilton, Conn. Today's hottest high-tech niches, he says, include services that help firms network computers and gain access to the Internet.

This story is part of a continuing series on managing at the turn of the century.

Growing Expectations

Industry sectors where sales are forecast to post high growth rates over the next 12 months, according to March surveys of top executives at about 400 of the fastest-growing U.S. companies

	Estimated Growth Rate
Computer Goods Associated With Local Area Networks	42%
Computer Software	41%
Electronic Products	38%
Telecommunications Equipment And Services	34%
Food Products	33%
Furniture	33%
Personnel Services	33%
Home Audio/Video Products	32%
Leisure And Recreation Services	30%
Computer Systems (Miscellaneous)	28%

SOURCE: COOPERS & LYBRAND TRENDSETTER BAROMETER SURVEY

CHART: KATHLEEN VETTER



Top Niches

A periodic survey by Coopers & Lybrand, called the "Trendsetter Barometer," also suggests where revenues are likely to continue flowing. The firm recently asked the top executives of 400 of the fastest-growing U.S. firms to identify what they thought would be the burgeoning sectors in America by mid-1997. At the head of the list of responses were high-tech areas, including local-area-networking services for computers, software manufacturing, and telecommunications equipment and services. (See the accompanying chart.)

But Collins, who helps conduct the surveys, advises entrepreneurial wannabes to consider looking beyond the hot niches themselves to find ways to serve businesses that are in them.

For instance, his studies of swiftly growing firms indicate that executives of these companies feel hampered by difficulties in finding skilled workers. These managers "are frustrated because they can't get what they need to continue growth at a breakneck speed," he says.

That frustration spells opportunity for companies that can step in and help the hard-pressed managers find skilled workers or improve existing employees' skills, Collins says.

His surveys also have documented a heightened interest in product exporting, which presents another opportunity for outsiders that can offer consulting and other types of services to firms exporting to a particular country for the first time.

ENTERPRISE 2000

A recent survey showed that 47 percent of the fastest-growing firms were selling abroad, up from 43 percent in 1992, and an additional 6 percent of the companies planned to enter international markets within a year.

How Convenient

Meanwhile, a recent study of quickly growing industries by the U.S. Small Business Administration offers some different insights. The SBA projects that the industries likely to add the most workers among firms with fewer than 500 employees between 1994 and 2005 are the retail and services sectors, as the economy continues to move away from its traditional manufacturing base.

Within the retail-trade industries—where small firms historically have thrived—the fastest-growing types of small businesses will be eating and drinking establishments, the study projects. Overall employment among such establishments was 7.1 million in 1994, but the

The best reason to start a small business is "a burning, deep desire to do it."

—Jere Glover, Small Business Administration

SBA expects the number to increase by 14.4 percent by 2005, to about 8.1 million.

The trend will be pushed along largely by Americans' quest for convenience as consumers continue to seek balance between work demands and family needs, says Jere Glover, chief counsel for advocacy at the SBA. "What we're seeing is that more and more people are eating out," he says.

But Glover says heightened interest in franchising, which allows small firms to buy into an existing business concept, will also help boost employment among eating establishments. Already, franchises account for 38 percent of retail trade, and that proportion should grow, Glover notes.

Within the services sector, the fastest-growing type of small business will be medical and dental laboratories, the SBA study reports, with employment nearly doubling to about 1.9 million from about 1 million between 1994 and 2005. Employment among residential-care firms, which offer services primarily to the elderly, will rise 83 percent, from 602,000 employees in 1994 to 1.1 million in 2005.

Although the entrepreneurially inclined can find plenty of opportunity among these trends, Glover offers this advice to anyone who wants to start a business: Rely somewhat on your own interests to find your niche, and don't just follow the numbers.

SBA research has shown over the years that business owners were more likely to succeed if they founded their businesses based on their own passions rather than on their need for income.

"The reason to start a small business is because you have a burning, deep desire to do it," Glover says. "If you're starting a company because you want to do it, you are more likely to succeed than if you're doing it simply for financial gain. If you're doing it just for the money, you're likely to fail." NB

A Boom Time For Start-ups

Overall, in stark contrast to the downsizing of corporate America, entrepreneurs have been taking the economy by storm. The Employment and Training Administration of the U.S. Department of Labor reports that in the first nine months of 1995 alone, 639,849 businesses were established—3.6 percent more than in the same period the previous year.

The Clinton administration estimates that the data for all of 1995 will show that business start-ups surpassed 1994's record 807,000.

Meanwhile, business failures declined a bit during 1995, to 71,194, down from 71,558 the preceding year, according to Dun & Bradstreet Corp.

But some small-business trend-watchers say new business incorporations are now ebbing a bit, and they attribute it to the uncertainty that many Americans feel about the economy. "There's a little more of a conservative posture," says Larry Winters, an assistant vice president with Dun & Bradstreet.

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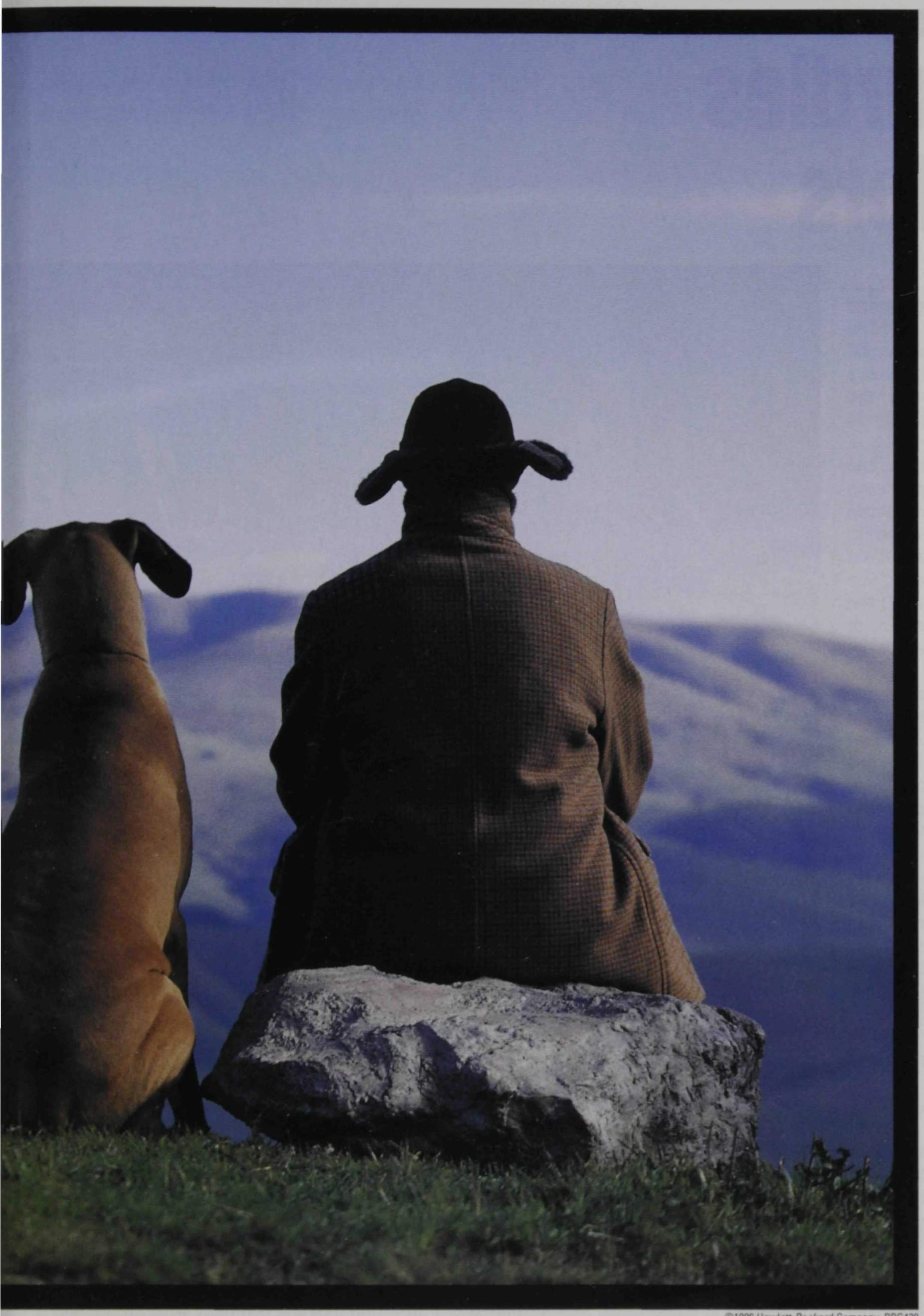
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HP PCs For Small Business

MANAGING

Rising Hurdles For Vendors

By Sharon Nelton



PHOTO: ©SANTA FABIO—BLACK STAR

***Gilreath Manufacturing's team,** in Howell, Mich., understands the new rules of selling and buying. From left: Phillip T. Rhodes, Elizabeth "Liz" Miller, Leon E. Tupper, and Stan Gordon.*

Purchasing and purchasing agents aren't what they used to be. The days when a small supplier could attract large corporate customers with quality, on-time delivery, and the lowest price are fast disappearing. Buyers these days want even more.

Despite the emphasis on quality in the past decade, "quality is not enough," says Russell J. Bunio, vice president of materials and systems for Cummins Engine, based in Columbus, Ind. Quality "is expected, it's a given, and it's the price of admission," he says. "So if we think that we can provide the customer with quality and it takes care of everything, it won't. The challenge is to go beyond that."

Bunio made those remarks at a session on purchasing at a recent conference in Detroit of the National Minority Supplier Development Council (NMSDC).

As he suggests, corporate purchasing departments today are asking small businesses to jump through more hoops, clear higher hurdles, and take on more responsibility than ever. But the vendors who are learning the extensive array of new tricks needed to win new customers and keep old ones are finding they have vastly improved their own companies and as a result are better positioned to be competitive in the future.

Purchasing executives and business owners alike say the changes in the world of purchasing are seismic. Here are some of the shifts they report:

■ Large corporations have drastically reduced the number of vendors they deal with. "Now they're looking for a few good-quality suppliers. They are bringing down the vendor base because they are working so much on a faster turnaround now," says Irene J. Smith, president of Mar-Tek Industries, Inc., a 43-employee manufacturer of screen-printed graphics and plastic and metal products.

The Englewood, Colo., company's clients include Lucent Technologies Inc., the telephone-equipment business spun off by AT&T; Gilbarco, a Greensboro, N.C., company that is one of the world's largest producers of service-station equipment; and Lockheed Martin in Denver.

Sometimes a client wants to give you an order in the morning and have product supplied that afternoon, Smith says. That makes it impossible for a buyer to indulge in the long process of seeking multiple bids. As a result, corporations often seek multiple-year contracts with vendors they've learned to trust.

Smaller companies that once dealt directly with large customers now often find themselves a notch away, as "second-tier" companies supplying larger "first-tier" companies that in turn supply the corporate customers.

One trend driving that development, says Leon E. Tupper, president of Gilreath Manufacturing, Inc., in Howell, Mich., is that companies like Chrysler and Ford are moving to "system sourcing," turning to large companies to put together large sections of an automobile, such as an entire interior or a braking system.

Traditionally, Gilreath, a custom plastic injection molding company with $18 million in sales last year, has supplied the plastic components for a seat system directly to an automaker. Now, for one Ford vehicle, Gilreath is a supplier to Milwaukee-based Johnson Controls, Inc., which assembles the seat system and delivers it to Ford.

■ Purchasing departments are playing a greater role in corporate strategic planning. Not only are they relied on to get the best price for products and services, they look for suppliers who will

Suppliers who learn to meet today's tough new demands find their companies are better for it.



help them reach the top and stay there. Moreover, they are asking smaller suppliers to play roles they never played before. In the automobile industry, for example, "there is a shift of core competency from Ford, Chrysler, and General Motors to the supply base," Tupper says.

Once, the automobile manufacturers were totally responsible for product design. "Increasingly now they are asking the suppliers to become involved early on in the concept stage of the automobile, making recommendations for efficient design and product-development strategies," as well as helping the customer meet price targets for the end product, Tupper says.

To take on this new responsibility, Tupper says, Gilreath has had to "staff up our operations with more experienced product engineers and development personnel."

■ As corporations downsize, purchasing departments are downsized. This means the ability of a purchasing department or an individual buyer to mentor small companies and bring them along is greatly reduced or disappears altogether.

Access can also be more difficult and the stress on purchasing personnel greater. When an entrepreneur attending the NMSDC conference complained that buyers weren't returning calls, a purchasing executive urged him not to give up. "My department is now procuring twice the amount with one-third the staff," he said.

■ Suppliers are expected to provide much more service. Smaller companies find they have to adopt the contemporary ways of doing business that their customers require, such as JIT (just-in-time delivery), EDI (electronic data interchange—systems that connect supplier and customer via computer), and *kaizen*, a Japanese approach to continuous improvement.

It used to be that a supplier might manufacture the product, ship it, send the bill, and that was it. But today's supplier is often expected to warehouse the product until it's wanted and, by using EDI, to monitor the supply the customer has and automatically ship new product to maintain an established level.

What was once transported by mail—shipping information, invoices, funds, even artwork—may be transported via EDI.

The new ways of doing business often require employee training, which larger corporations often are happy to supply.

Sometimes, though, the smaller company has to take on the training responsibility itself. Gilreath has initiated a program to train employees on-site in subjects ranging from statistical process control to conflict resolution and team building. A grant from the state of Michigan, amounting to $300 to $400 for each employee, helps pay the cost.

■ Purchasing is increasingly a global activity, meaning that domestic suppliers are facing ever-rising competition with suppliers from abroad. But selling is increasingly global, too, and increasingly, buyers at multinational companies expect their suppliers to become certified in the international quality standards known as the ISO 9000 series.

"As we move more rapidly into this global economy and global environment, more and more companies will have to be committed to this type of certification if they want to remain competitive and remain alive in the industry," says Phillip T. Rhodes, senior sales account manager at Gilreath.

■ The emphasis is on partnership and teamwork. Twenty years ago, Smith says, relationships between suppliers and purchasers often were adversarial. But "the No. 1 word that sets the whole relationship now is partnership," she says. (See "Striking The Right Match," May.)

■ The ever-greater demands placed on first- and second-tier suppliers cause them in turn to place the same demands

Resources

To learn more about corporate purchasing trends, you can order two audiotapes from the 1995 National Minority Supplier Development Council conference: "Trends and Issues in Purchasing" (Tape No. T2) and "Second Tier: The New Frontier?" (Tape No. T4). Each tape is $12.

Send your order to TSCD Sight & Sound Production, 6006 Greenbelt Road, Box 165, Greenbelt, Md. 20770; (301) 210-3437.

"Supplier Quality Management: Achieving Consistent Quality Through Strategic Alliance and Supplier Certification" is a course scheduled for Sept. 25-27 in Washington, D.C. Call the George Washington University Continuing Engineering Education Program at (202) 994-5288 or 1-800-424-9773. Ask about future programs, too. Earlier this year, the school offered short courses on ISO 9000.

on their own even smaller vendors. Says Gilreath senior buyer Elizabeth "Liz" Miller: "If we have to do JIT, our suppliers have to do JIT. A lot of it is just a trickle-down effect."

As demanding as these changes are, business owners such as Mar-Tek's Smith and Gilreath's Tupper view them as positive. For example, installing an EDI system, says Smith, means not only that she is helping her customers "but also [that] we get paid quicker." As her company gains experience with JIT, EDI, and all the other mandates of change, she turns that experience into selling tools to win new business.

Tupper acknowledges that Gilreath is a more sophisticated company now. "Actually, we look forward to the challenges change brings to the marketplace because it forces us to find ways of getting better," he says.

Both companies are prospering. Gilreath's sales this year are expected to leap to $30 million, $12 million over last year's figure. Smith's company expects sales to grow from $3.2 million last year to $3.8 million in 1996.

While a positive attitude will help you deal with change, business owners and buyers offer these more specific tips for working successfully with corporate purchasers:

Do your homework. Before you try to penetrate a market, says Gilreath's Rhodes, you need to understand the industry's purchasing strategies and sourcing practices. Such information, says Rhodes, "is very important because one industry price structure may be completely different from another. And you have to understand that to quote business competitively."

Says Tupper: "A lot of failure is due to the fact that companies have failed to do their homework in terms of research on markets."



PHOTO: ©BARRY STAVER

Gilbarco's *Bob Allen inspects fuel-pump graphics made by Irene Smith's Mar-Tek Industries.*

Ferret out the problems. "I ask [buyers] what their problems are. I give them free advice," says Mar-Tek's Smith. She offers free samples of products that may solve a problem for a customer. And she asks to speak to the people in the factory to get their input; buyers, she explains, are not necessarily aware of problems.

Be aggressive and knowledgeable. "The first thing that a buyer thinks is that the smaller the company, the less competitive they're going to be," says Gilreath's Miller. It's important to convince the buyer that your firm can offer the required technical support and that your employees have valuable experience.

Form a cooperative with other small companies to purchase raw materials. By pooling financial resources and buying in larger quantities at lower prices, you can price your own products more competitively, says Gilreath's Rhodes.

If a buyer seems rude or angry, don't take it personally. Remember the stress purchasing people are under. "I have discovered that some of the toughest, rudest, most angry buyers that I've worked with have developed into some of my very best accounts," says Smith. To help take the stress off buyers, she looks for services she can offer to make their job easier—such as electronically monitoring supplies and automatic shipping.

Don't get discouraged. "Sometimes you just have to be persistent, and just don't give up," says Stan Gordon, senior account manager at Gilreath. But, he adds, "if you're not hearing what you want to hear or you're not getting a response from someone, then you've got to knock on a different door."

The key to winning over buyers is to convince them that what you have to offer will contribute to their companies' success. And adopt the attitude that Smith of Mar-Tek and Tupper of Gilreath have about the changes taking place in the world of purchasing: Change presents challenges, but challenges will stretch your company and make it better. NB

To order a reprint of this story, see Page 56.
For a fax copy, see Page 5.

When A Buyer Turns You Down

What if a purchasing agent doesn't return your calls or refuses to buy your product?

Linda Collinson, a Davidsonville, Md., entrepreneur, doesn't take no for an answer. When Collinson, founder of LaCrista, Inc., couldn't persuade a buyer at a Washington-area supermarket chain to stock her company's natural lotions and health-care products, she began calling the chain's chief executive.

He finally called back, met with her, and agreed to test her products in 12 stores.

"That was my big break," Collinson told an audience recently at a conference sponsored by the University of Maryland Dingman Center for Entrepreneurship. LaCrista's products now are carried in more than 100 of the chain's stores.

After a buyer at Wal-Mart Stores, Inc., rejected her products eight times, she found that Wal-Mart had a program to support U.S.-made goods. She contacted the head of the program and got in through that door.

If a buyer doesn't return your calls, put your pitch in writing, advises Elizabeth (Liz) Miller, senior buyer for Gilreath Manufacturing, Inc., a Howell, Mich., custom plastic injection molding company. When you write, tell why you think your product or service would benefit the company, she says, and if that brings no response, go to the next level, even to the president.

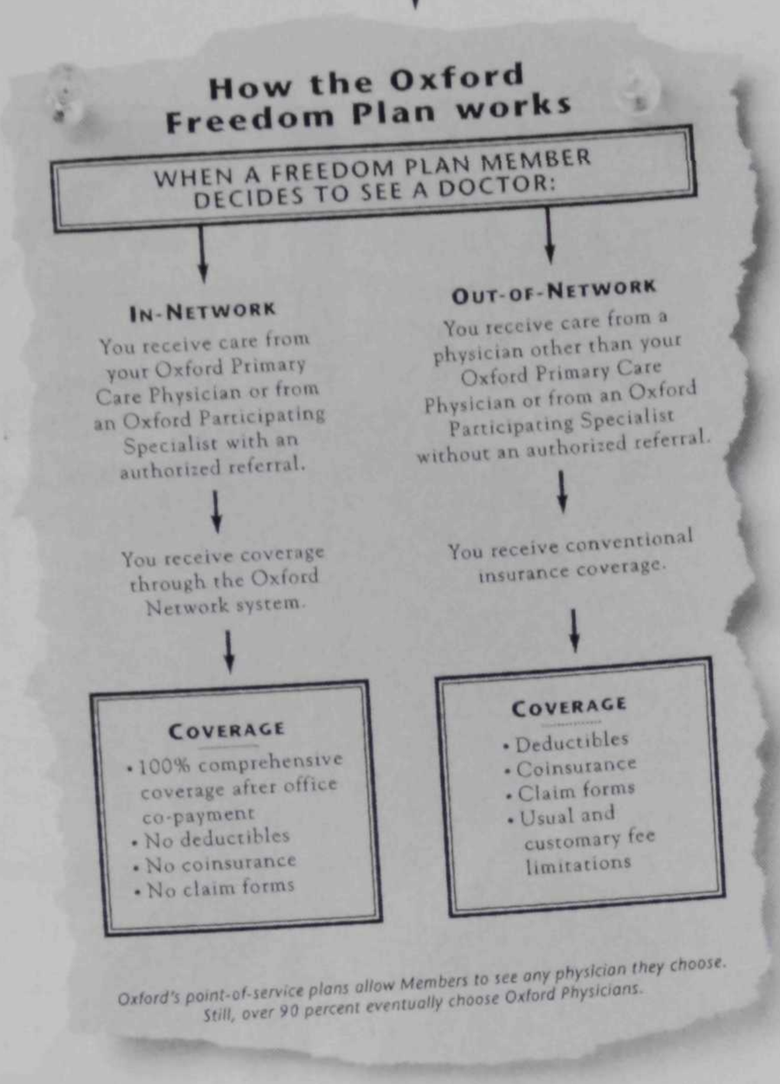
There's a price to be paid, however, in bypassing the usual purchasing channels. "I've made a lot of enemies with buyers," says Collinson. Yet once you get into a company, you still have to work with the buyers. To ease her relationship with one of them, Collinson says, "I pretend we're the best friends in the world." She sends wine at Christmas and frequent thank-you notes. "I kill her with kindness."

Nonetheless, she adds, a buyer never gets over it when you go over his head.

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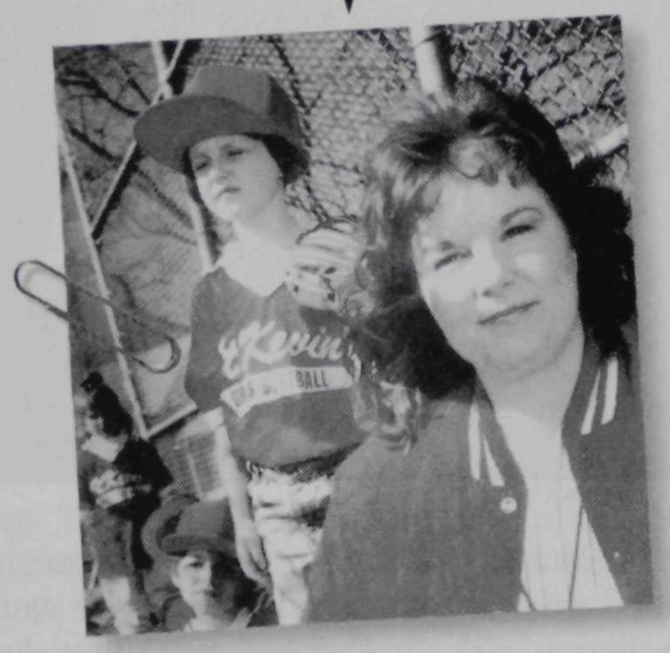
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SPECIAL REPORT

Gaining An Edge On Liability

By Lynn Woods

Frustrated by the high cost of liability insurance for his building-maintenance consulting firm, Mort Daves decided in 1993 that he could do better. Today, he pays half as much premium and gets five times as much coverage.

Daves, executive vice president of First Quality Maintenance, in New York City, accomplished this feat by having the firm join a risk-purchasing group. These are voluntary pooling arrangements that give small businesses a bargaining edge by consolidating the firms' buying power into a group, thereby enabling them to secure broader coverage, lower premiums, and better policy terms for their liability coverage.

Initially, Daves was skeptical about the benefits of such a group, but no longer. "It's meant a significant cost savings, which has increased my net profits," he says.

As a side benefit, he has also saved on workers' compensation for his 12-person firm. By law, risk-purchasing groups are allowed to obtain only liability insurance. But by using the leverage of the group, the group's broker was able to get the members a separate workers' compensation package at a reduced cost. For Daves, that has meant a premium reduction of 30 percent.

Janice Brown, owner of Star Systems Consultation and Training Inc., in Philadelphia, became a member of a risk-purchasing group for a different reason. She discovered that her geriatric-care company's liability insurance didn't cover daily money management, claims filing, powers of attorney for health-care decisions, and other client services particular to her profession.

She chose not to provide these services because she did not have liability coverage for them. "The insurance is really critical because my clients are vulnerable and can't do these services themselves," she says. Thus, she joined a risk-purchasing group designed for geriatric-care managers.

Robert Beyer, administrator at Limbach & Limbach LLP, a 36-attorney patent-law firm in San Francisco and San Jose, Calif., became concerned about his firm's liability coverage after discovering what appeared to be an error in a company procedure in 1990. "I called our insurance firm, and the agent said, 'We don't deal with questions, we deal with lawsuits,' " Beyer says.

Lynn Woods is a free-lance writer in Woodstock, N.Y.



PHOTO: ©LINDA SUE SCOTT

Not pleased with the carrier's response, he hooked up with some colleagues who were founding a risk-purchasing group for law firms, called PILOT/Legis, and his firm became one of the 30 founding members. The first year, the firm saved 15 percent on its liability-insurance premium, and since then the premium has dropped an additional 25 percent.

But Beyer says the cost savings are only a byproduct of the real benefits: "First, being able to get the insurance, and second, getting it under the terms you wish."

For example, the policy covers attorneys who act as arbitrators, who had been excluded under the company's previous insurance policy. As required by the group, Beyer's firm now has an active risk-management program, which has resulted not only in a reduction in the premium but also in more-efficient management of the firm.

Daves, Brown, and Beyer are among the growing number of small-business owners and managers who have experienced tangible benefits by having their firms join risk-purchasing groups to obtain their liability-insurance coverage.

The groups generally are composed of small businesses in the same field—ranging from health care to real estate to sports—that have similar risk exposures. (To learn more on how such groups function in one industry—health care—see "The Power Of Pooling," March 1995.)

Created In Crisis

Formation of risk groups began after passage of the Risk Retention Act in 1986. The act was Congress' response to a liability-insurance crisis that had priced many small companies out of the market. Risk-retention groups enable companies in the same industry, such as plastics or chemicals, to cut insurance costs by forming what are, in

The advantages of an insurance-coverage pool can make a sink-or-swim difference for some small firms.



Joining *a risk-purchasing group has cut costs for the Limbach & Limbach law firm, says the firm's administrator, Robert Beyer, center, with attorneys Gerald T. Sekimura and Veronica Colby Devitt.*

effect, mini insurance companies to self-insure against liability claims. Risk-purchasing groups, on the other hand, permit group purchasing of liability coverage.

The law applies only to commercial liability coverage, including the actions of directors and officers, errors and omissions, professional liability, pollution liability, and umbrella liability (coverage above and beyond what a company already has).

By pre-empting many state requirements governing liability insurance, the act paved the way for the formation of groups that could cross state lines and bypass onerous regulatory expenses and red tape.

In recent years, risk-purchasing groups have grown in popularity. In March, there were 542 active groups, according to Karen Cutts, managing editor and publisher of *The Risk Retention Reporter,* a newsletter based in Pasadena, Calif. That figure represents an increase of more than 14 percent since December 1994. Annual premiums for risk-purchasing groups total more than $2 billion, Cutts estimates.

As awareness of risk-purchasing groups increases, more types of businesses are jumping on the bandwagon. "We're seeing the development of niches within niches," Cutts says.

Strength In Standards

In some instances, the groups are helping companies establish standards that will govern and strengthen their profession. For example, when Mary Jane Haake launched Dermagraphics, a tattooing company in Portland, Ore., 10 years ago, she couldn't get insurance on her own, in part because the tattooing industry was unregulated.

Dermagraphics does three types of tattooing: the standard type, called figurative tattooing; cosmetic tattooing, such as enhancing an eyebrow; and medical tattooing, such as re-creating the areola of a woman who has had a mastectomy.

Haake could get liability coverage only by joining the Society of Permanent Cosmetic Professionals, a risk-purchasing group that also provides riders for advanced treatments, such as tattooing a burn victim's skin graft to match the normal skin color.

Initially the society had difficulty in getting a carrier, says Susan Preston, the group's administrator. But ultimately it attracted a big, established carrier, in part because of the thoroughness with which Preston established the group's professional standards, relying on dozens of consultations with doctors and other medical experts.

Those standards in turn are helping to guide legislators as they seek to regulate the industry in their states. "The risk-purchasing group was an educational tool that is bringing the profession up to speed," says Haake.

Levels Of Savings

How much a company saves through a risk-purchasing group depends on the type and size of business. Richard C. Imbert, president of the American Professional Agency Inc., an insurance underwriter based in Amityville, N.Y., says annual rates for one of the types of group he handles—social workers—range from $40 to $400 for a $1 million liability limit. That compares with rates of $500 to $1,000 for comparable coverage for a single firm.

For securities firms, the savings can be even more dramatic. Dean Boyle, director of member benefits at the National Association of Securities Dealers, based in Rockville, Md., says that when he last shopped around, about 14 months ago, the lowest premium he could find for an individual securities firm was $10,000 a year. In contrast, the association's new purchasing group, approved in December, offers "something broad in coverage" for $1,500 a year.

"A large number of NASD's members are small firms with 12 or fewer employees," he says. "They're not being served by the commercial market because they're viewed as a risky class of business."

Gaining Some Clout

Jeffrey Rubin, executive director at New York City-based Kaye Insurance Associates Inc., a retail broker that works with seven risk-purchasing groups, sums it up this way: "If you're paying half a million dollars in premiums, you can write your own ticket" as far as policy terms. But a small firm paying modest premiums doesn't have such clout.

"Purchasing groups enable small businesses to buy liability insurance at similar rates and limit levels as big organizations."

Insurance companies find risk-purchasing groups attractive prospects because the companies can save on costs in two ways—by using a single agent or broker for multiple states and by tailoring a policy for a group based on a similar level of risk.

"Acquisition and internal expenses are typically reduced, since it is easier and less expensive to target-market and pre-underwrite select classes of business" than it is to draw up policies for a number of individual companies, says Douglas Boyce, senior vice president of Interstate Insurance Group, based in Chicago.

A purchasing group also allows carriers to reward a good record on losses, "ultimately benefiting not only the individual insured members but the carrier as well," says Diana Dean-Spurgeon, director of professional liability at Scottsdale Insurance Co., in Arizona.

With all parties—the insured, the brokers, and the insurers—potentially benefiting, it's

not surprising that risk-purchasing groups are being formed in many different ways.

Sometimes a trade association will organize a risk-purchasing group, open to all or some of its members. Or a number of companies in the same field will get together, define their liability needs, organize a group, and shop for a broker.

A broker might be the motivating force, either through booking a number of homogeneous businesses or by pursuing industry affinity groups such as associations.

In still other cases, it's the insurance company that is the impetus for forming a group. "We used the risk-purchasing-group vehicle to get to market quickly because we don't have to go through the states," says Diane Fiel, product-line director at Interstate Insurance Group.

Most risk-purchasing groups are organized as not-for-profit corporations; others are formed as unincorporated associations or for-profit corporations. The group may be run by an administrator (either a member of the risk-purchasing group or an outside, salaried employee) or the broker, who may sit on the board.

Risk-purchasing groups also vary widely in the degree to which member companies are involved. Some of the people in the companies might not even know they belong to a group. At the opposite extreme, they'll pay yearly dues and attend educational programs designed to reduce their risks.

Beyer, for example, says that Limbach & Limbach pays annual dues of up to 2.5 percent of the premium, which helps pay the salaries of the two full-time staff people who run the group. Representatives of prospective member firms fill out an application for membership, covering type of business, annual revenues, and claims history.

To get the most out of a risk-purchasing group, businesses should be ready to make a commitment. "It's like belonging to a club," says Beyer, who adds that it helps to have some knowledge of the insurance business.

They should also make sure that the broker they're dealing with is licensed and that the carrier is rated as solid by a reputable insurance-rating service. (According to newsletter publisher Cutts, 82 percent of the insurers for risk-purchasing groups are rated by A.M. Best Co.)

Finally, companies interested in forming a risk-purchasing group should be prepared to invest money and time in the start-up procedure. They need to work with an insurance professional, either a broker or program administrator, to negotiate the best terms and effectively organize and operate the group. The group must be registered in the states in which it intends to operate.

Some states have added burdensome regulations in violation of the spirit of the Risk Retention Act, according to risk-purchasing-group advocates. These regulations make it more costly and time-consuming to form a group. Florida, for example, requires a group's directors and officers to be fingerprinted. It can take as long as seven months and cost $2,000 to $3,000 for consulting work and the approval process needed to get a group off the ground, according to the American Professional Agency's Imbert.

Another disadvantage is the law's restriction against the purchase of anything other than liability coverage. Because of this limitation, some associations—which may want to offer members workers' comp and property coverage, for example, in addition to liability insurance—have chosen not to use purchasing groups.

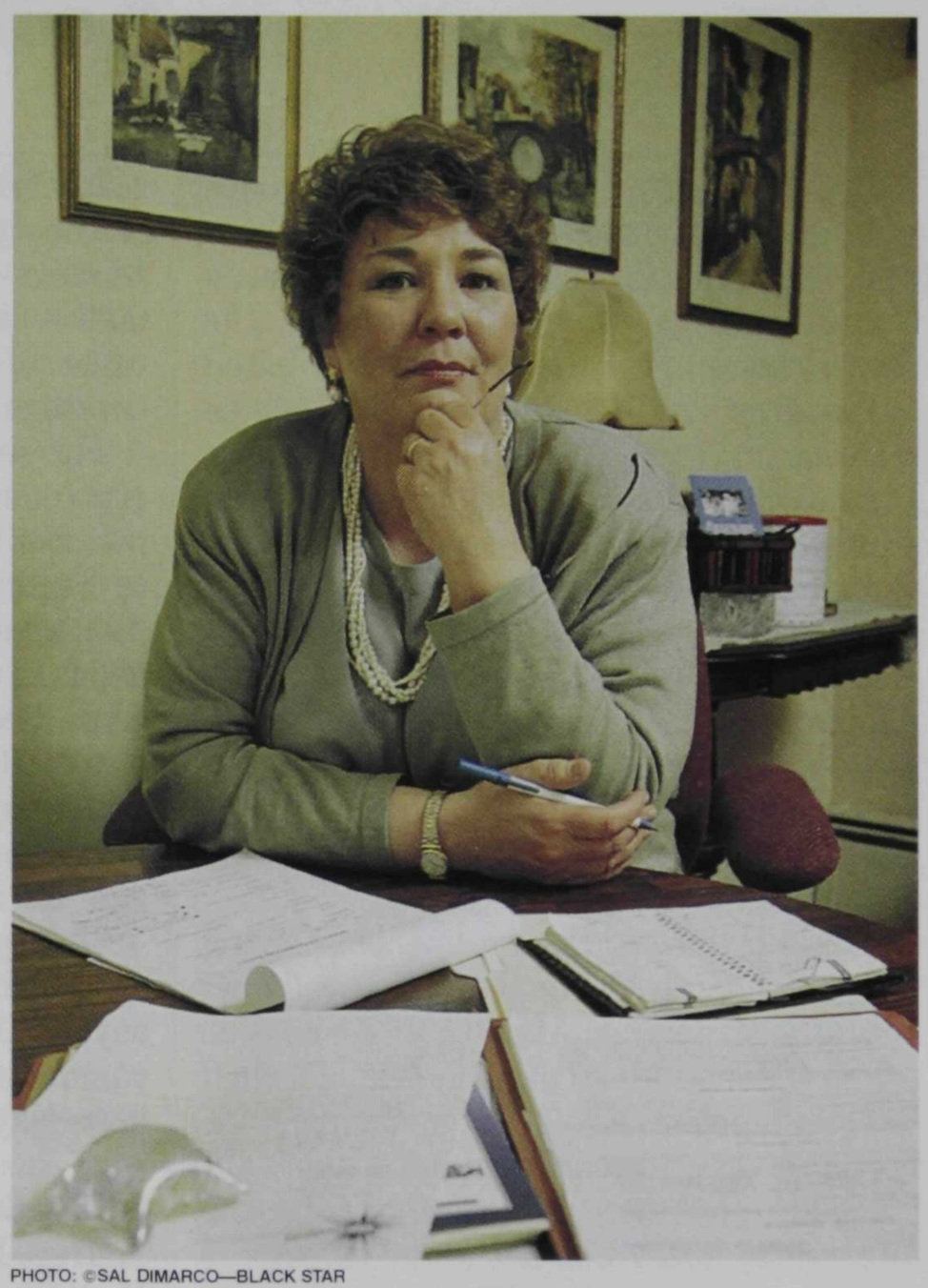


PHOTO: ©SAL DIMARCO—BLACK STAR

When she learned *that her geriatric-care company's liability insurance didn't cover some client services, Janice Brown joined a risk-purchasing group.*

Despite such obstacles, many companies have found that a risk-purchasing group helps them gain control over their liability insurance. For some small firms, joining a group is the first step toward designing their own coverage terms for other types of insurance. Beyer, for example, says he is working with a broker to put together a property-insurance package outside the group. He is also studying how the group could be converted into a risk-retention group. "If the market changes, we'd write our own insurance in partnership with a broker," he says.

Cutts says the evolution of risk-purchasing groups into risk-retention groups makes sense. "A purchasing group is like dating, whereas a risk-retention group is like getting married," she says.

The ultimate goal of both is for small firms to manage their risks themselves, freeing them from the whims of the marketplace, reining in costs, streamlining administration, and—perhaps most important—helping them establish better business practices. NB

To order a reprint of this story, see Page 56.
For a fax copy, see Page 5.

Resources

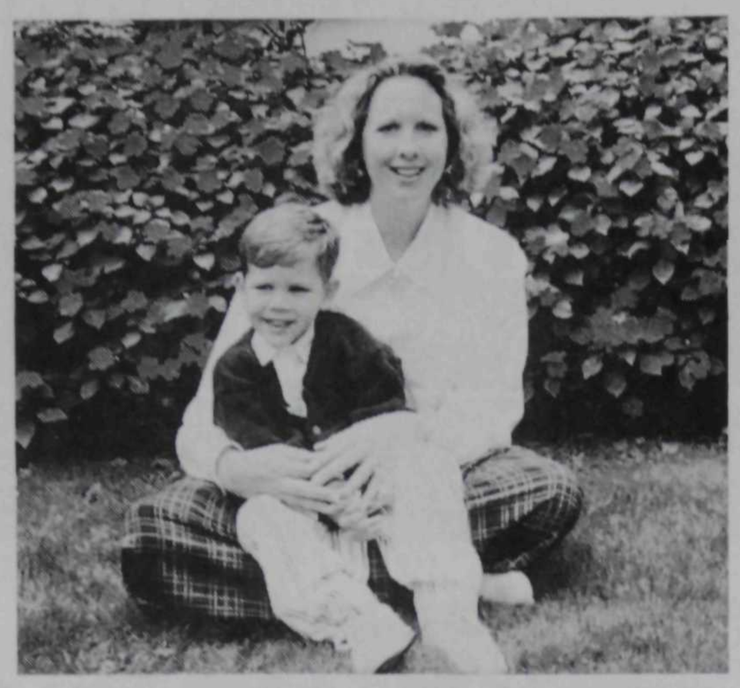
Comprehensive information about risk-purchasing groups, including a complete listing of such organizations, is contained in *A Practical Guide to Purchasing Groups*, published annually by Insurance Communications, a firm that specializes in publications related to risk-purchasing and risk-retention groups. The guide details how the groups are formed and regulated and discusses how they deal with insurers, agents, and brokers. The cost is $495 plus a $10 shipping charge. To order a copy, call (818) 796-4972 (fax: 818-796-2363) or write P.O. Box 50147, Pasadena, Calif. 91115.

Two other Insurance Communications publications are also useful for companies interested in risk-retention or risk-purchasing groups:

The Risk Retention Reporter, a monthly newsletter, provides up-to-the-minute information on the marketplace for such groups, monitors the groups, and conducts regular surveys. An annual subscription costs $295.

The Risk Retention Group Directory & Guide profiles risk-retention groups and includes a service-provider index. It is published annually and costs $185.

Insurance Communications has also set up a site on the Internet's World Wide Web, providing information on risk-purchasing groups. By fall, the site should include a listing of insurers, agents, and brokers. The address is *http://www.rrr.com*.



Alicia McNulty and
son Joseph

I had just given birth
to my fourth child,
when I heard my doctor say,
"For God's sake,
she's hemorrhaging.
I can't stop the bleeding."
The baby was fine,
but I was bleeding to death.
For ten days I lay in a coma
as a team of doctors,
surgeons and nurses
fought to keep me alive.
But in the end,
what ultimately
made the difference were
165 total strangers
who I only know as
type AB Positive.

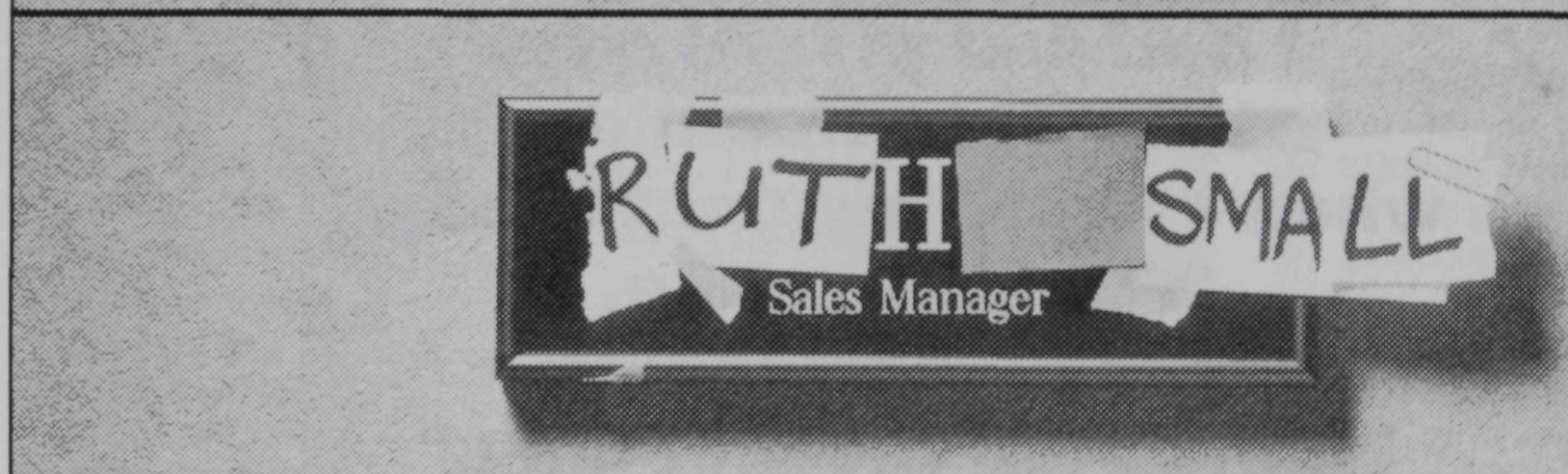
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Your blood saved my life.

New York *Blood Center*

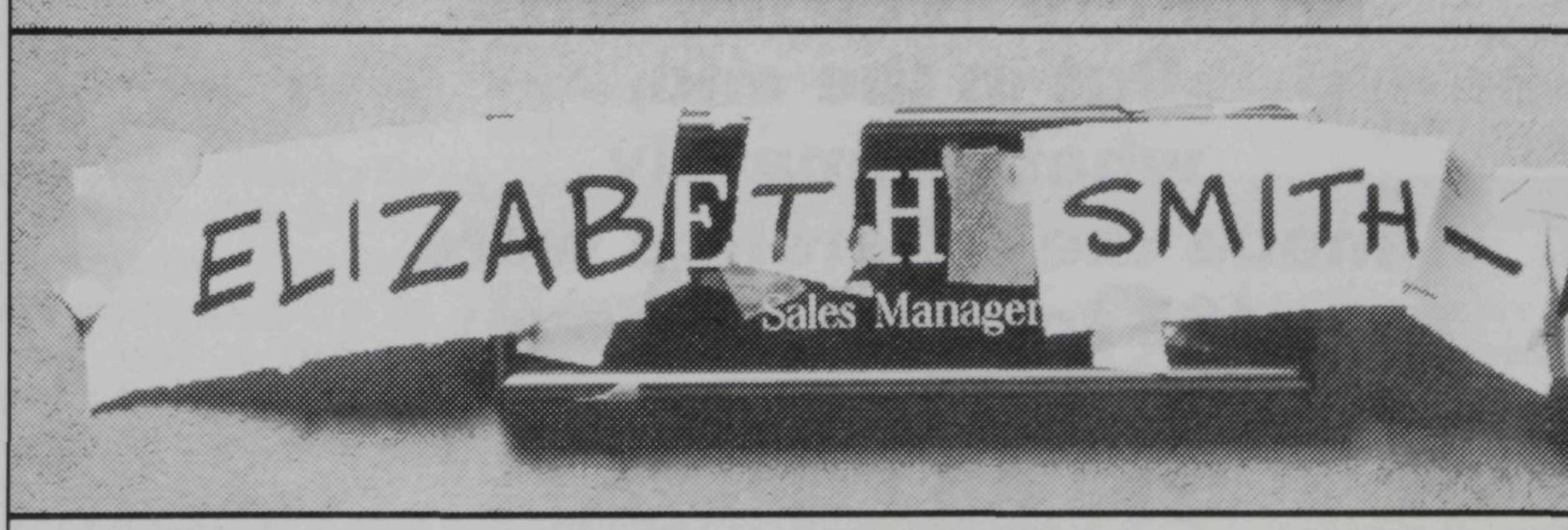
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Family Business

Going from one leader to a team of leaders means a whole new structure.

By Sharon Nelton

OBSERVATIONS

Team Playing Is On The Rise

More and more, family-business owners in the U.S. are beginning to do what advisers have traditionally warned them not to do: Instead of winnowing out a single successor, they're passing the business on to a team of leaders and owners made up of siblings or, occasionally, cousins.

And sometimes the results are astonishingly successful.

Ivan Lansberg, an organizational psychologist in New Haven, Conn., who specializes in family firms, says that when he began his career, he thought all companies should be led by a single leader. That was the prevailing notion.

When he encountered a family business that worked beautifully even though it was led by a partnership of siblings or cousins, he would question the wisdom of such a structure. And, he says, the partners would say: "We're having fun and making money. Go back and study some more, and come back and talk to us 10 years from now."

The point, says Lansberg, is that while sibling and cousin partnerships are not for everyone, under the right circumstances they do work.



PHOTO: ©HANS SCOTT



PHOTO: ©GREG SMITH—GS STUDIOS INC.

Among the fourth *and fifth generations at W. J. Hagerty & Sons, U.S.A., are, top, Todd Meszaros and Mary Hagerty Gilbert; middle row, Michael Hagerty, Kimberly Hagerty Batalis, Lloyd Krupp, and Shelley Hagerty Meszaros; and bottom, James Batalis Jr. Inset: Third-generation Chairman M. Patrick Hagerty.*

Polishing The Concept

Testing out this brave new world of partnerships is W.J. Hagerty & Sons, Ltd., Inc., a 101-year-old company in South Bend, Ind., that manufactures and distributes—in nearly 30 countries—products for the care of silver, jewelry, and other items.

The business is now owned equally by the 23 members of the fourth generation, of whom a dozen or so are actively working in the firm. The family business consists of three separate companies—one in the United States, one in Canada, and the third and largest in Europe.

"We have a common interest," says Shelley Hagerty Meszaros, president of W.J. Hagerty, U.S.A., which has about 65 employees. "We love this business, we're here to work, and we're here to sell."

During the first two generations, the business was run by a single leader—first, the founder, W.J. Hagerty, and then his son, Mansiel Hagerty.

In the third generation, M. Patrick "Pat" Hagerty took charge of the U.S. branch, and his brother, William J. Hagerty, created and still oversees the European operation, based in Monte Carlo, while their two sisters have taken somewhat active roles in the company.

Now members of the fourth generation bear titles like co-chairman of the board, president, and vice president, and they

run the day-to-day operations of the U.S. division—which the family calls the "mother ship."

Pat Hagerty, executive chairman of the American company, claims to have semi-retired to Fort Myers, Fla. "But everyone knows he still calls all the shots," says daughter Kimberly Hagerty Batalis, a company vice president.

However, Hagerty in the U.S. is clearly a company that is moving from a single leader to a team of leaders. As such, it is paving the way for the future of many family businesses in this country.

Changing Expectations

Studies on family business have only recently begun to look at succession trends. However, family-business consultants across the country say they are seeing a clear movement toward multiple succession.

One such consultant, John L. Ward, who is also a professor of private enterprise at Loyola University Chicago, says that in informal research, he has found that about 50 percent of family-business owners "are intending to pass on ownership and leadership to multiple-sibling teams."

Ward has found that an additional 25 percent expect their businesses to pass to a group of cousins, and the remaining one-fourth expect their businesses to go to a single owner. As recently as a decade ago, Ward says, only 20 to 25 percent of family firms were run by sibling partnerships.

"To me, [the figures are] refuting the notion of primogeniture or linear ownership. That clearly is a tremendous change," says Ward, whose observations are based on informal surveys over the years of attendees at family-business seminars and on industry surveys.

About 28 percent of those who responded to a survey conducted by the Arthur Andersen Family Business Center, in Houston, and 26 percent of the respondents to a Massachusetts Mutual Life Insurance Co. survey said they expect to pass their businesses on to multiple successors. Both studies were conducted last year.

One factor driving the change is an increased sensitivity on the part of the current senior generation "that sometimes their siblings weren't treated fairly," says Mike Cohn, president of the Cohn Financial Group, a family-business consulting firm in Phoenix.

Cohn cites an instance in which the parents of four children left the stock to the two sons with the intent that the two daughters would be "taken care of" with other assets after the parents died. But the parents lived a long time and used up all their assets. "At their death, there really wasn't anything for the sisters," says Cohn.

"The two sons, meanwhile, had grown the business and had done very well in it," he says, "but their sisters have always been sort of the poor relations." Between them, the brothers, now in their 60s, have eight children, and Cohn says they are looking for ways to pass on the business that won't repeat the inequity experienced by their sisters.

"Many Paths To Continuity"

Today's business-owning parents are less willing than those of earlier generations to discriminate among children and are more inclined to treat all children equally, says Ward. Because daughters (and younger sons) are now regarded as potential successors more frequently than they used to be, business owners have more options for succession.

For centuries, businesses were passed from father to firstborn son, and management ideas emanated from the church and the military, "both of which are systems that are anchored on the notion that you need to have one ultimate chief," says psychologist Lansberg. As the world grows more complex, however, more companies, large and small, are moving toward team leadership.

According to Lansberg, three types of family businesses have emerged: those managed by one owner, those run by sibling partnerships, and those run by teams of cousins, or what Lansberg calls "cousin consortiums." There are, he says, "many paths to continuity."

But what family-business owners need to understand, says Lansberg, is that when a business moves from one stage to another—from a single owner to a sibling partnership, for example, or from a sibling partnership to leadership by cousins—it represents a structural change in the company.

What worked for Mom or Dad as a single owner—who was involved in every decision, "from capital investments to paper clips"—cannot be expected to work for a sibling partnership, Lansberg says. Even cousin companies are vastly different from companies managed by sibling teams.

"By the time companies get into the cousin stage, the structure has now bal-

A Checklist For Success

Are you thinking of passing on your business to a team of siblings or cousins? To help you evaluate whether the team will be successful, Ivan Lansberg, an organizational psychologist specializing in family firms, suggests these guidelines:



PHOTO: ©KHOI TON

With care, *sibling or cousin leadership can succeed, says expert Ivan Lansberg.*

Requirements For Sibling Partnerships:

- A healthy bond among siblings.
- Commitment to a shared dream, which Lansberg describes as "a vision of the future that generates excitement and vitality in [the team's] working relationship."
- The ability to appreciate and use each person's talents. To work effectively, says Lansberg, a team "must bring forth the unique talents that the individuals have."
- The ability to capitalize on a shared history.
- A generosity of spirit—that is, an attitude of "all for one and one for all."
- The ability to manage rivalries constructively.
- A sense of humor.

Requirements For Cousin Consortiums:

- Commitment to a shared dream.
- A solid structure, including an effective board of directors, a family council, and policies on entering and leaving the firm.
- A program for educating all shareholders about stewardship.
- Fair buyout policies.

looned and become much more complex," says Lansberg. "In order to manage 35 shareholders—some of whom work in the company, some of whom do not—you need a more complex organization."

Siblings And Cousins

Sibling partnerships are organized along the lines of an "office of the presidency," Lansberg says, with partners having responsibility for different functions. They tend to come in two types, he says. One is the team of equals, in which leadership is shared—when you ask who's in control, they answer, "We are." The second type is the "first among equals" partnership, in which a "lead" sibling exercises the most authority.

Although lead siblings may own slightly more stock than their partners do—for example, 51 percent compared with 49 percent in a two-sibling partnership—their power "is derived by their personal leadership" and not necessarily from owning the controlling shares of stock, says Lansberg.

Team management is the next big issue in family firms.

Cousin companies are usually larger, and their governance systems "are considerably more complicated," says Lansberg, who is writing a book on managing continuity in family firms; it is due out from Harvard Business School Press early next year.

At the cousin stage, a business may have many formal systems and policies in place—such as a family council, a charitable foundation, buyout and venture funds, a board of directors that includes individuals from outside the family, and rules determining how family members can join or leave the business.

Taking a structural approach, according to Lansberg, "reduces emphasis on personalities" and focuses attention on problem solving. (See "A Better Way To Pass The Baton," December 1995.)

Passing a business from father to son is one thing, but passing a company to a team of cousins, says Lansberg, is "a very different event." In the case of the single owner handing a company down to a son, ownership and management are linked. But when a company is passed to a group of cousins, that link dissolves, with some branches of the family owning shares but not being involved in management.

Companies such as Hagerty may find themselves for many years trying to manage the transition from one system to another. Pat Hagerty is still involved in all the major decisions while the members of the fourth generation, in their 30s and 40s, own the company and must take it into the future together.

The Team Approach

Although succession—managing the transition from one generation to the next in a family business—has been the big issue in family businesses for the past decade or so as many businesses have changed hands, family-business experts see team management as the big issue in the years to come.

A common problem, says Lansberg, is that sibling groups lack "a clear vision of what it takes to create an effective sibling team or even how to recognize one when they see it."

"There are no role models" for most sibling and cousin teams, says financial consultant Cohn. "They can't look back to a previous generation and say, 'Here's how our parents and grandparents did it.' "

Consultants themselves recognize that they must be able to help families with a "partnership model." Mike Henning, a family-business consultant in Effingham, Ill., confesses his own bias toward a single leader. But, he says, "our own client base reflects these changes from the single owner to the team approach."

While moving to team leadership and ownership may be risky for a family firm, Cohn says, there can be some benefits. The downside might be that cousins and siblings perpetuate notions and practices that are no longer beneficial, such as secretiveness or refusal to hire outsiders.

But on the plus side, Cohn says, sibling and cousin teams are "very rich in terms of communication and trust, maintaining the culture of the company, and having a real good sense of purpose. There's a real sensitivity to the intangible parts of the company—what the company contributes to the community, for example, and how it treats employees."

Like the Hagerty family, the new teams may find that as they mature, they will get better at working together. The Hagertys have learned to place an emphasis on the work itself and to follow the rule of "principle before personality" as a way to get past conflict. As Kimberly Batalis puts it: "Get mad. Go home. Eat a chocolate cake and forget about it, and come back the next day and work." NB

An audiocassette of Ivan Lansberg's presentation, "Succession as Structural Change: What Happens When Siblings or Cousins Take Charge," is available for $12 from ACTS, Inc., 14153 Clayton Road, Town and Country, Mo. 63017; 1-800-642-2287. Ask for tape No. FF9516, from the 1995 annual conference of the Family Firm Institute.

MARK YOUR CALENDAR

June 1-3, Hedgesville, W.Va.

"The Meeting of the Minds" is a two-day retreat designed to enable participants to evaluate the past, present, and future of their family businesses. Call the George Washington University Center for Family Enterprise at (202) 994-9150.

June 5-7, Denver

"Managing Succession Without Conflict" is a seminar featuring two nationally known family-business consultants, Léon A. Danco and John L. Ward. To be repeated in November. Contact Ross Nager of the Arthur Andersen Center for Family Business at 1-800-924-2770.

June 6, Broadview, Ill.

"Conflict in the Workplace and Conflict in Family Business" is a dinner meeting sponsored by the Midwest Association of Family Business Owners. Call (708) 495-8900.

June 9-13, Atlanta

The "Family Business Academy" is for potential successors or members of the next generation who are considering joining the family firm. Topics include relationships with family members, conflict resolution, estate planning, and strategic planning. Call the Family Enterprise Center at Kennesaw State College at (770) 423-6045.

June 13, Northampton, Mass.

"Getting It Done By Breaking All the Rules" is a meeting that explores ways of thinking to help regenerate a family business. Call Ira Bryck at the Family Business Center of the University of Massachusetts at Amherst; (413) 545-1537.

June 20, Norristown, Pa.

"Family Pride Makes the Difference" is a seminar featuring the family that owns Genuardi's Supermarkets, a Philadelphia-area chain. Call the Delaware Family Business Center at (215) 723-8413.

How To Get Listed

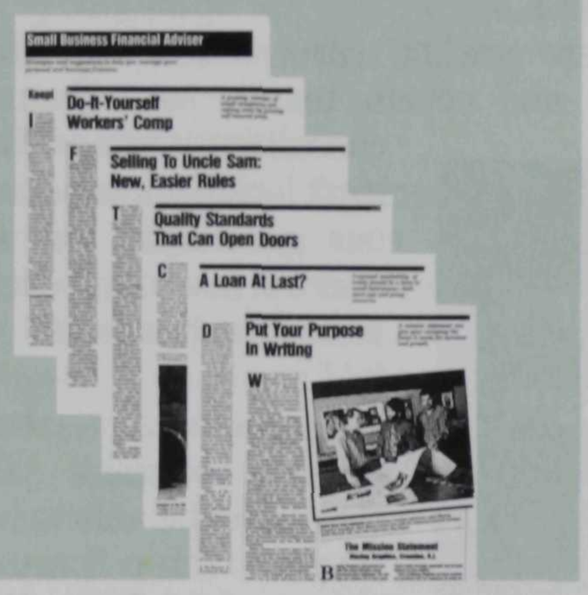
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***GAINING AN EDGE ON LIABILITY #9122**
Joining an insurance pool can make a sink-or-swim difference for a firm. (Page 50)

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The ups and downs that three firms experienced in the IPO process light the way for other companies. (Page 57)

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FINANCE

Tales Of Caution In Going Public

The ups and downs that three companies experienced in the IPO process light the way for other firms.

By David R. Evanson

Each year thousands of thriving small firms attempt to go public. An IPO—initial public offering—is the ultimate statement of entrepreneurial success. But most companies that start the process never finish. Even so, the lessons learned along the way are often worth the aggravation and expense.

Here are the stories of three small firms that started the IPO process within the past few years, experienced its ups and downs—and, in various ways, reaped its rewards.

Chasing A Market

In 1993, entrepreneur Joe Falsetti, whose Langhorne, Pa., company, Rom Tech, publishes and sells multimedia software on CD-ROMs, knew a market explosion for CD-ROMs was around the corner. And he was right. Driven by shrinking costs for hardware, increased utility, and a growing base of personal computers equipped with CD-ROM drives, sales worldwide mushroomed in 1994 to $10.7 billion and hit $18 billion last year, according to market researcher Infotech, in Woodstock, Vt.

But past experience as a marketer and strategic planner at computer giant Unisys had taught Falsetti that chasing markets driven by new technology requires plenty of capital. "If you want to run with the dogs," he says, "you can't lie there on the porch." His discussions with venture capitalists quickly showed him that to take Rom Tech where he thought it could go, he would first have to take the company public.

"There were lots of investors who wanted to invest in us as a private company," says Falsetti. "But they all had the same question: 'How do we cash out and win?' " The answer was obvious: The company would undertake an IPO to give these early investors an "exit" route—stock they could sell in exchange for their ownership stake.

Eye On The Goal

Vincent Caruso, founder of Kwik Goal, a sports-equipment manufacturer in Quakertown, Pa., found that the growing popularity of soccer was straining his cash flow. "We were in a growth spiral," Caruso explains. "Our debt was getting bigger each year by the difference between what we were making [total revenue] and what we needed to keep growing." Cash flow couldn't generate enough capital to finance growth.

With annual sales nearing $4 million in 1993, Caruso figured he needed at least $500,000 in additional cash for inventory and accounts receivable to grow within a year beyond the $5 million mark. But just boosting gross revenue wouldn't do the job. "Even if we made $500,000, we would still be way off," he says.

Of those earnings, says Caruso, $250,000 would go to state, local, and federal taxes, and the remaining $250,000 would still leave the company needing to borrow $250,000.

To break the cycle of mounting debt, Caruso decided to attempt a $6 million IPO.



PHOTO: T. MICHAEL KEZA

A merger *with another firm gave Joe Falsetti's multimedia-software company the sales volume it needed to go public.*

Purchasing Plans

Best Programs, Inc., a Reston, Va., firm that develops accounting and human-resources software, found that revenues started to climb when software updates were tied to changes in federal and state regulations. "Suddenly, our cash flow was predictable," says Best's chief financial officer, Melody Ranelli.

But while Best was flush with cash, it was flush with competitors, too. "The industry was highly fragmented," she says. "We felt that if we were public, we would have the currency to make acquisitions" and grow in competitive strength.

Best filed for a $23 million initial public offering.

Rom Tech and Kwik Goal had similar reasons for wanting to go public. They needed capital, not debt, to finance expansion. But there are other reasons companies seek IPOs, says Tony Petrelli, senior vice president of Neidiger/Tucker/Bruner Inc., a Denver-based investment banking firm focusing on

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David R. Evanson, a financial-communications consultant and writer, is the principal of Financial Communications Associates Inc., in Ardmore, Pa.

For more on IPOs, see "Are You Ready To Go Public?" in the January 1995 issue.

emerging and middle-market companies. Some want to attract and financially reward key employees with stock. Others want to raise their visibility and prestige. Going public also can smooth the way for future access to capital markets.

While the reasoning behind a public offering is generally straightforward, the process hardly ever is, says Petrelli. "Taking your company public will be one of the most difficult transitions it will ever make."

In fact, overshadowed by last year's tally of more than 500 IPOs are the thousands of companies that tried and never made it. Jeffrey Adduci, president of the Regional Investment Bankers Association, in Charleston, S.C., estimates that less than 5 percent of the companies that attempt an offer ever close the deal.

Adduci, whose trade group's 175 investment bankers focus on emerging companies, says: "There are many reasons companies fail. The most common is they cannot entice an underwriter" to finance the project and then act as a sponsor in marketing it.

Sometimes a company's management does a poor job of selling itself, he says. Other times, as with Rom Tech and Kwik Goal, structural issues arise during the process and get in the way.

Stumbling Blocks

Falsetti recalls a productive first meeting last year with a New York City investment banking firm, Strasbourger, Pearson, Tulcin, Wolff Inc. But the underwriter told Falsetti to come back when Rom Tech, incorporated in July 1992, was a little bigger. "At $1 million in sales," he says, "the company didn't have enough meat on its bones to get them excited."

Rom Tech's diminutive stature, he learned, presented problems. Growth companies such as Rom Tech that compete in the hot CD-ROM market are valued on a multiple of revenues rather than earnings because such companies often haven't reached profitability.

According to that formula, Falsetti's $1.2 million in sales made his company worth approximately $5 million. To raise $4 million to $5 million with an IPO—the size of deal that begins to look profitable to an underwriter—meant putting practically 100 percent of the firm's value up for sale. Typically, an IPO puts 20 percent to 50 percent of a company up for sale.

Even if Falsetti were to go for that kind of deal, which would all but wipe out his financial stake in the company, there would still be problems. The biggest one: How could the investment banker sell the deal to investors when the company founders couldn't retain enough stock to keep themselves financially tied to the company? Before an IPO would look attractive, Rom Tech would have to get bigger.



PHOTO: T. MICHAEL KEZA

After balking *just before his Kwik Goal sports-equipment firm was set to go public, Vincent Caruso says he's glad he did.*

Convincing The Brokers

At Kwik Goal, the structural issues were different. "The company was started in 1981," says founder Caruso. "My brother—a teacher and soccer coach—asked me if I could make a portable soccer net that would fit into a station wagon. We grew from there as a family business."

Earlier in his career, Caruso had run and retired from a wrecking and demolition company. But what he and his brother lacked was the financial-management background that underwriters expect of owners to drive a deal to the closing table.

The situation was exacerbated by the fact that the smaller underwriters that handle firms the size of Kwik Goal rely heavily on the selling talents of an IPO client's management.

But Caruso was uncomfortable pitching the company to strangers. "I was told to sell stock by making presentations to brokers," he recalls, "but nobody ever clued me in to what these brokers wanted to hear about."

Adduci, chief of the investment bankers' group, says the most stressful part of the IPO process for a firm's management is the meeting with the brokers. "Sometimes they [owners] don't know their presentations to brokers should be much different than a sales presentation," he says. When management focuses on technology, product features, or customer service without addressing markets, growth rates, and margins, it's a formula for disaster, he says.

The Right Stuff

By contrast, Best Programs appeared to be a prime IPO candidate. With revenues of $20 million in 1993, annual growth of about 30 percent, and pretax margins of about 14 percent, the company quickly got a letter of intent from two highly respected regional underwriters interested in selling 2.1 million shares priced at $9 to $11.

But during the ensuing presentations to brokerage houses and institutional investors, CFO Ranelli says, Best got a crash course in just how fleeting are the moments that a company has for selling its deal.

It's not that Best didn't have a great story to tell. But an unexpected problem quickly emerged, recalls Ranelli. The company's tax software, called Tax Partner, accounted for about 30 percent of revenues at the time and attracted a lot of negative attention because of difficulties involving a competitor. The other company's stock price fell "by almost half while we were in registration to go public," Ranelli says. "It made a lot of news."

Once potential investors became focused on the tax software, they began to see other problems. For example, almost all of the revenue for the tax software arrived in January, when the product was

shipped. But because development and marketing costs were spread over an entire year, Best, though highly profitable, showed operating losses for the two quarters following January, which disturbed investors. The deal began to founder.

Last-Minute Surprises

At Kwik Goal, Caruso got all the way to the day before the IPO when he decided to walk.

"The underwriter came to us the night before and said that they could only get $3 per share instead of the $6 we filed for," recalls Caruso. "I said there was simply no way I was going to sell 55 percent of my company for $3 million."



PHOTO: T. MICHAEL KEZA

When the indications *for an opening stock price dipped too low, software developer Best Programs, Inc. canceled its initial public offering, says Melody Ranelli, chief financial officer.*

While underwriters set an initial target price, feedback from potential investors may cause that price to go up or down before the IPO is actually launched.

So although he had spent over $200,000 in legal, accounting, and printing fees in preparation for the IPO, Caruso left the investment bankers standing at the altar.

The competitor's problems hurt Best Programs' IPO, Ranelli says. "When the indications [for the opening stock price] started to dip below $9 per share, we had to think hard about how committed we were to being public. The consensus was that at $9 or less, we were selling 20 percent of the company for not much in return." Despite having spent some $500,000 on legal, accounting, and printing fees, Best canceled its IPO in June 1993.

Only tiny Rom Tech successfully negotiated the perils of the process and got to the closing table for a $4 million check. To get the company up to size, Falsetti engineered a merger with nearby Applied Optical Media Corp. (AOMC), a company Rom Tech had done business with. "Whereas Rom Tech focused on distribution, AOMC was strong in development," says Falsetti. "By bringing them under one roof, we achieved vertical integration and got the sales volume we needed to go public."

Today, Caruso's Kwik Goal is profitable on sales of $9 million without having gone through with an IPO. He learned public ownership would have been a mistake for his family business. "I saw I would end up running the company, and everyone else would call the shots."

And he adds that the ever-present emphasis on growth may not have been good for Kwik Goal. "You can grow yourself into the poorhouse. I learned growth means nothing. Earnings are what counts."

Caruso says he now thinks a firm should have at least $10 million in sales and healthy earnings before contemplating an IPO. "You've got to have some earnings to plow into getting the transaction done. If the deal dies, it's bad enough that the expenses come off the bottom line. But it would be tragic if it killed the company, too."

Although Caruso expects to pass $10 million in sales, he says he would never consider another offering. "I don't want to sell my company when it's about to take off. We're a family business, and the investors I want to benefit are the next generation of this family and our employees."

After it withdrew its offering, Best sold the tax-software product to another company and is now focusing on its two other software products. One is designed for personnel management, the other is to help businesses calculate asset depreciation. Ranelli says she figures that if Best were to go public today, shares would fetch about $15 each, compared with under $9 as they were closing in on the IPO.

Perhaps the biggest lesson she learned was the value of focus. "Even though it was a good business for us, our tax software really threw the investors off," says Ranelli. "When you have just 20 minutes to present where you've been, where you're going, and what it all means, the smallest complication or inconsistency can cause problems."

As for Rom Tech, the complexity of the IPO deal was disproportionate to its size. To fund all of the expenses and keep Rom Tech growing, Falsetti needed so-called bridge financing of $400,000. He had a tentative commitment to secure this from the venture-capital firm that backed AOMC, the company Rom Tech ultimately merged with, but only if he was able to get a solid commitment from the underwriter to do the IPO. The underwriter, of course, would do the deal only if Rom Tech was larger, and Applied Optical would agree to the merger only if Rom Tech completed the IPO.

Because of the tangled web, Falsetti structured the offering so the merger with Applied would occur the day of the IPO.

On the day the paperwork was done, Friday the 13th of October 1995, Rom Tech's IPO went off as planned. For Falsetti, the biggest lesson he learned was never to stop driving the deal forward. "I started working on it in May and didn't stop until we got our check in October," he says.

"Suddenly, all of the effort of the past few months was worth it." NB

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For a fax copy, see Page 5.

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DUTTON

MANAGING

Tips For Preparing A Business Plan

The best plans share characteristics of research, preparation, and presentation.

By Linda Elkins

You have about 20 minutes to persuade a stranger to lend you money or invest in your business. It's now or never, and your company's future rides on the outcome.

Is your business plan up to this kind of challenge?

Whether a plan is drawn up to help secure a bank loan or outside investment, it requires a great deal of thought; it cannot be left to chance.

Many business owners regard the writing of a business plan as a kind of torture that must be endured if they want to move their company to the next stage of development. But after completing a plan, many entrepreneurs regard the process as an enlightening exercise for management and view the result as a boost to the company's public image.

While business plans vary greatly in length and scope, winning plans share several characteristics, all stemming from the research that's done in preparing them and the analysis and presentation of the plans themselves. Here are the 10 characteristics of successful business plans:

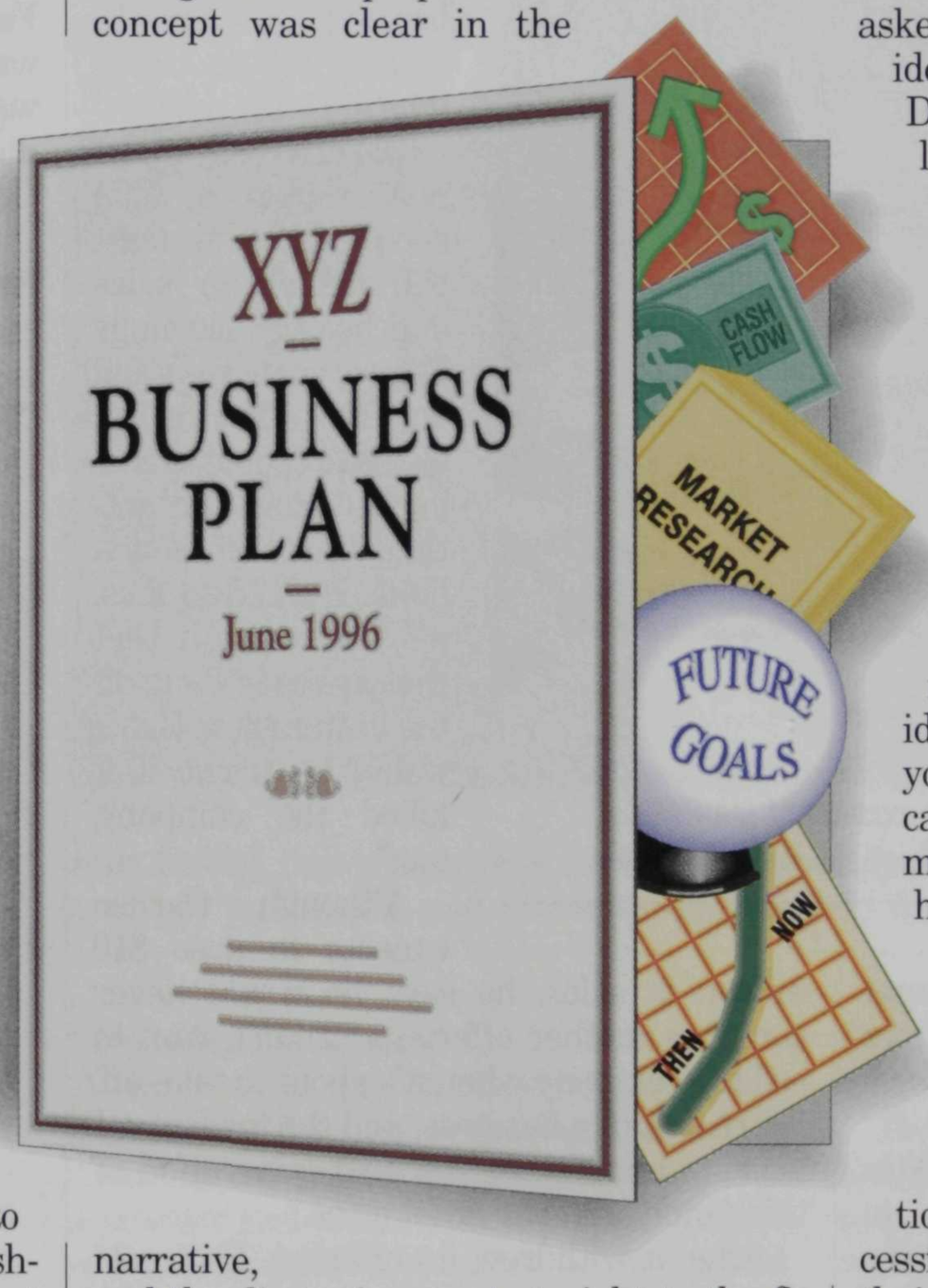
1. Clear, Realistic Financial Projections

Bank loan officers and investors often start and end their review of your plan here. The financials must be in a standard format and presented clearly. Investors usually want summaries of performance to date, and then, in a similar format, cash-flow, income-statement, and balance-sheet forecasts. A written narrative must accompany all significant line items.

"The average banker may spend two minutes on the executive summary and 20 minutes on the numbers before going back to ensure that there is a relationship between the increased sales shown in the projections and the marketing plans," says Betsy Cooksey, director of the Southern Region Small Business Development Center, in Waldorf, Md.

Larry Carlson, president of Shepherd's Yacht Yard and of Black Dog Props, both in Solomons, Md., spent two months researching and writing his 41-page business plan. He worked closely with his partner and a business-plan consultant before submitting the plan to his banker in the hope of securing a $150,000 loan.

Carlson sought to equip and start a computer-controlled facility for remanufacturing marine propellers. The concept was clear in the narrative, and the discussion went straight to the financial section.



The $150,000 requested included $25,000 to cover any unexpected expenses; the bank wouldn't approve that part of the request. After revising the financials, the bank and Carlson worked together to secure a $100,000 loan backed by a repayment guarantee from the U.S. Small Business Administration. That was enough to get the business off the ground.

Because his plan was well-researched and he was willing to compromise, Carlson got his loan. As the new company completes its first year, it has already won business from the Coast Guard and from private boat owners across the country.

2. Detailed Market Research

Demonstrate that you know your customers and the problems you are solving for them. Know the size of your market and its trends. To whom are you appealing? How many potential customers are there, and can they be reached with marketing and promotion? Are they good at paying? Who signs the checks?

"Is it a growing market?" is the question asked by Chip Stelljes, executive vice president of Allied Capital, in Washington, D.C. Allied is the nation's largest publicly traded venture-capital fund, with $650 million under management. "Are there a few big players which will be difficult to unseat," he asks, "or is [the market] fragmented, with more opportunity for a newcomer?"

"What makes you think that you'll succeed where so many have failed?" asks Allan Weissburg, who runs Weissburg Financial Planning, a McLean, Va., company that offers planning and investment-management services. "The 'better mousetrap' idea, where the public beats a path to your door, is passé. We're all more cynical than that. Rightly or wrongly, it's the marketing that counts. It doesn't matter how great the product is."

3. Detailed Competitor Research

Everyone has competitors, and you have to know them and respect them in order to run a company effectively. Get their pricing and promotional materials, know how big and successful they are, learn everything about their product, and find out how many employees they have and what their financials look like.

"I've seen people gets loans for which they were undercapitalized because they knew their industry so thoroughly they could quote costs and sales per square foot for their store and for all their competitors," says Cooksey.

4. Management, Management, Management

If you have holes in your management team, start lining up people to come on board when the money arrives, and include them in your plan. A mediocre product can make a successful company if there is excellent management, and conversely, bad

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management can make the best product a failure.

"The top of the list for a successful business plan," says Cooksey, "is management experience in the field. [The Small Business Development Center] had 25 plans funded by banks last year. The most successful are employees buying the business from the owner. The others were successful in talking about industry trends and giving the loan officer enough information to feel comfortable."

5. A Killer Summary

A great summary starts with a statement of what the company is seeking (debt or equity funding, support of some other kind, or better organization) and continues with a clear description of the market, the company's management, and product. Keep it short—two to three pages—and include summaries of your year-end income statements for your performance to date and projections. Add a few market numbers, and the experienced reader will have a summary of your business at a glance.

6. Proof Of Vision

Put enough detail in each section so that your reader can follow your plans and see that your goals are attainable. Demonstrate that you know how to sell and distribute your product, that you have thought through the hiring needs that come with growth, and that you know the kind of company you want to grow.

Vision is what "creates excitement for investors," says Dr. Judy Britz, chief operating officer of Sienna Biotech, in Columbia, Md. Sienna's core technology, Copalis, has applications in analyzing blood for infectious diseases and hormones and in testing soil, water, and food. "Differentiate your product or service from the competition; explain clearly how you are better," says Britz.

Sienna's final plan, 50 pages long, was used to inform its major investor, a large manufacturing company, of Sienna's plans for the future.

7. Good Formatting And Clear Writing

"The first requisite of a successful plan is that it be interesting to read, well-written, and smooth-flowing," says Weissburg. "The second requisite is that it be well-organized, so I can look at the table of contents and find what I need. No one will go flipping through searching." Write short paragraphs, and use bullet points whenever applicable.

Howard Califano, director of the Office of Technology Licensing at Johns Hopkins University, in Baltimore, adds: "The business plan needs to be a simple, straightforward document. Distinctly set out the business opportunity; use declarative sentences."

8. Keep The Plan Short

Fewer than 40 pages is a good goal. There are apocryphal stories of companies that funded on the basis of three pages faxed to the right investor. But most companies can't be summarized in any meaningful way in such a short document.



On the other hand, long business plans are a turnoff. If it's too long to look inviting for you to read, why would anyone else be interested?

9. Design For The Bottom Line

In the text of your plan, explain clearly why you need financing, what kind of financing best suits the company, and how the bank or investor would be repaid. If you're seeking bank or other debt investment, your company must have rock-solid cash flow. Show when you intend to repay and where you will get the money. If you are seeking investors, don't just talk about the present. Project where the business is going. For most equity investments, you need a very high growth rate.

It's also important to show that you yourself have invested in the company. Don't ask someone else for money if you haven't put your own in first.

10. Make The Plan Your Own

When faced with the overwhelming task of creating a compelling plan, you may be strongly inclined to hire an outside writer for help. But beware. Many plan-writing consultants simply don't have the patience to guide you in making your own decisions, and they may end up making decisions and interpreting data for you, effectively inventing your business for you. That can prove to be a bad idea when you have to implement the plan.

Always create the business plan first by yourself. Then, if you need help, go to a consultant, who can help immeasurably by pointing out weak points, helping to find data, and writing your ideas in the order and manner best suited for your intended audience.

Expect to pay $1,000 to $4,000 for a well-polished, complete plan for bank financing, and much more for a sophisticated equity-investment plan.

In addition to consultants, you might turn to other sources for help. Cooksey calls her Small Business Development Center a one-stop shop for assistance in planning and operating a business. Similar centers are scattered across the country. They conduct one-on-one, confidential counseling for business plans and make their extensive business libraries available.

"The business-plan process gives you a much better idea of whether your project is feasible," says Carlson, of Black Dog Props. "If there are serious reasons why the business can't happen, the planning process will show you.

"We walked into the bank a lot more confident about what we were doing," Carlson continues. "We had a professional product. We knew what we intended to do and how we would do it. This also put the banker in a strong position to defend the loan to his loan committee and to the SBA, if need be. In short, a good business plan is invaluable." NB

For More Information

The following books contain suggestions that can help you in writing your own business plan:

Venture Capital Handbook, by David Gladstone; Prentice Hall, 1987; $30.95.

How to Write a Winning Business Plan, by Joseph R. Mancuso; Prentice Hall, 1992; $15.

Business Plans That Win, by Stanley R. Rich and David E. Gumpert; Harper-Collins, 1987; $13.

Finance for the Nonfinancial Manager, by Herbert T. Spiro; John Wiley & Sons, 1988; $19.95.

How to Read a Financial Report, by John A. Tracy; John Wiley & Sons, 1993; $16.95.

TRENDS

Closing The Curtain On Company Secrets

There are legal and other steps you can take to plug any potential leaks of proprietary information.

By Janine S. Pouliot

When sports-camp owner Charles Hoeveler called a competitor's 800 number to request company literature, he got an unexpected bonus. Chatting with an overly zealous employee, Hoeveler gathered a bounty of intelligence on his rival.

"Information in this business is difficult to come by," says Hoeveler, president of U.S. Sports Camps, in Kentfield, Calif. His firm runs camps around the country on golf, tennis, and other sports, mostly for children. "I was told the exact enrollment by each camp and session along with other facts," he says. "Obviously, the person working the phones wasn't trained in what to say and what not to say."

Employees who talk too much jeopardize a company's most valuable asset—proprietary information. They can also compromise the firm's competitive edge and future profits. Knowing what not to say is often as important as knowing what to say.

Here are steps to help you plug information leaks and keep your ideas from showing up under another company's nameplate:

Identify What Needs Protecting

"The first thing you've got to understand is what makes your product or service unique," says Andrew Bendheim, director of Massport Airport and Seaport, the independent authority that owns and operates Boston's Logan Airport and the city's port. Bendheim works with the University of Massachusetts at Boston to guide entrepreneurs exploring international marketing opportunities; protecting proprietary information is one of their concerns.

Obviously, you have to talk about your business and share information with customers. Once you recognize what sets you apart, you understand the information you shouldn't share. In fact, you should guard this information for all it's worth. Bendheim says many entrepreneurs don't know where to draw the line.



ILLLUSTRATION: GEORGIA LEIGH MCDONALD

Get Noncompetition Agreements

Jack Kaplan, former owner of a company that made software enabling doctors to verify insurance coverage, put plenty of trust in his employees—until an employee announced his intent to start his own firm by using Kaplan's technology.

Now a professor of entrepreneurial studies at New York University's Stern School of Business, Kaplan quickly contacted his attorney, who drew up a noncompetition agreement stating that former employees were prohibited from working for a rival firm in the same geographical area for two years. (For more on such agreements, see Managing Your Small Business in the May issue.) Because the employee was not yet ready to jump ship, he signed rather than lose his job.

State laws generally require employers to be reasonable in the restrictions they impose on someone's future livelihood, says Steven Gerber, managing partner of Gerber & Samson, a Wayne, N.J., law firm specializing in employment issues. Courts in many states will strike a clause entirely if it is found to be "unreasonable in geographic breadth or duration," he says. When drawing up such agreements, he says, consult an employment lawyer.

Make Secrets Off-Limits

Aside from legal contracts barring employees from moving to a rival firm, Gerber says, employers should have all employees promise to safeguard company secrets. But a formal contract isn't required, he says. A simple document using "boilerplate language that lawyers draft" specifying that employees are forbidden from disclosing, taking, or copying confidential information makes violators legally liable.

Don't Assume Home Base Is Safe

Just because you're near your office, or at least not near your competitors' offices, don't assume the competition isn't close by. Regularly remind workers not to discuss company activities or display sensitive company documents in public places.

Before Mike Felhofer opened his own business, Door County Candle Co., in Sturgeon Bay, Wis., he worked for a paper company and was researching the firm's competition. A co-worker reported that while investigating a rival business, he stopped for lunch at a nearby restaurant. Says Felhofer: "A group of employees from the firm came in, sat directly behind him, and started discussing confidential company strategies. He heard every word!"

Don't Trade It All At Trade Shows

Probably the greatest arena for serious eavesdropping is the trade show. Competitors typically check out rivals' booths to examine their products and catch any stray conversations that come their way.

"Entrepreneurs are so eager to lure potential customers, they're hesitant to hold back any information and seem uncooperative," says Massport's Bendheim.

"Trust your gut," says John Kaminski, a consultant in Green Bay, Wis., who specializes in helping companies improve productivity. "Be acutely aware of your own reactions. If a red flag pops up and you realize the conversation is taking on a foul odor, stop talking." NB

Janine S. Pouliot is a free-lance writer in Green Bay, Wis.

Small Business Financial Adviser

Restraining the tax collector; profiting from a hobby; learning about 401(k) plans.

Putting Trusts In Your Estate Planning

By Mary Rowland

Of all the personal-finance chores we face, most of us find estate planning the most tedious. It's not surprising, then, that it's often neglected, with the result that estate taxes eat up the bulk of many estates. For business owners, the result can be more disastrous still. Poor planning often means the family business must be sold to pay estate taxes.

To avoid handing over your assets—possibly even your business—to Uncle Sam, you must acquire at least a nodding acquaintance with the basics of estate planning and the use of trusts.

Experts say that the most common mistake American couples make in planning their estates is to hold all of their property jointly—or to leave everything to each other in their wills. "Ninety percent of the wills I see are what I call 'love me' wills," says Edward A. Slott, a certified public accountant in Rockville Centre, N.Y., who specializes in estate planning. "They say, 'I leave everything to you, and you leave everything to me.'"

This strategy, however, may trigger unnecessary taxes for any couple with a total estate of more than $600,000. The reason is that they may not be able to take full advantage of the personal exemption from estate taxes or the unlimited marital deduction.

The exemption, technically known as the unified credit, allows each person to transfer up to $600,000 free of federal estate and gift taxes either during life or at death. Estate taxes start at 37 percent of the amount that exceeds $600,000.

Under the marital deduction, a spouse can transfer an unlimited amount of property free of tax to his or her spouse, provided the spouse is an American citizen. But the surviving spouse then has only the $600,000 exemption left to shield the remaining estate.

Thus, splitting the property between the spouses early on to give each a $600,000 exemption from estate taxes is the first step in a good estate plan. "Equalization of both spouses' estates will provide the lowest possible estate tax," Slott says.

The key to trusts is understanding the difference between a revocable trust, which can be revoked or changed at any time by the person who set it up, and an irrevocable trust, which cannot be altered.

Because assets in a revocable trust remain under your control, they remain in your estate. Only those assets placed in an irrevocable trust are taken out of the estate for estate-tax purposes. Therefore, to save on estate taxes, you must give up control of the assets put in trust.

One more note: Each person can make an annual gift of $10,000 to as many people as he likes without filing a gift return. This means that each year a couple can gift $20,000 to each child, for example, or $40,000 to a grown child and the child's spouse. This "annual gift exclusion" may also be used to fund various types of trusts.

Credit Shelter Or Bypass Trust

One of the most basic types of trust is designed to make use of the $600,000 exemption at the death of one spouse. Known as a credit shelter or a bypass trust, it can be set up in your will so that $600,000 goes into the bypass trust at your death. Your spouse then receives all the income from the trust, and the principal goes to your heirs upon the death of your spouse.

The advantage of this type of trust is that if each spouse establishes one and makes use of the maximum $600,000 exemption, the couple can save up to $235,000 in federal taxes on an estate worth $1.2 million.

The Q-Tip Trust

A qualified terminable interest property trust, or Q-tip trust, is a form of marital trust that provides the surviving spouse an income for life. No estate taxes are due at the death of the first spouse because the Q-tip trust is allowed to use the unlimited marital deduction. Unlike the credit shelter or bypass trust, the principal in a Q-tip trust is included in the surviving spouse's estate.

The Q-tip trust allows the spouse who establishes it to determine who will be the beneficiary once the surviving spouse dies. Because of this aspect, Q-tip trusts are sometimes used by spouses in a second or third marriage to ensure that

Eight Trusts For Tax Savings

- Bypass Trust
- Q-Tip Trust
- Irrevocable Life-Insurance Trust
- Irrevocable Asset Trust
- Grantor-Retained Annuity Trust
- Grantor-Retained Unitrust
- Charitable Lead Trust
- Charitable Remainder Trust

CHARTS AND ILLUSTRATIONS: GEORGIA LEIGH MCDONALD

children from a first marriage inherit the principal.

There's a pitfall to avoid, however: Retirement assets should never be included in a Q-tip trust. The distributions from many plans, such as 401(k) plans and individual retirement accounts, do not satisfy the requirements of a Q-tip. If the trust requirements are not met, the Internal Revenue Service has ruled, estate taxes are owed on all the retirement-plan money.



To qualify for the marital deduction on estate taxes, a Q-tip must distribute all income to the surviving spouse at least once a year. But the payout options on retirement plans are typically based on life expectancy and do not necessarily result in distribution of all income.

If the retirement plan distributes less than its full annual income to the trust, all the money in the plan is disqualified for the marital deduction.

"If you have $1 million in an IRA and it is disqualified for the marital deduction, the estate could end up with a whopping tax bill," says Seymour Goldberg, a tax attorney at Goldberg and Ingber, in Garden City, N.Y.

The Irrevocable Life-Insurance Trust

This trust can be used to keep the proceeds of a life-insurance policy out of an estate, protect them from estate taxes, and allow them to be used to pay taxes on the rest of the estate.

The proceeds of a life-insurance policy are always free of income tax. But if the insured person is also the owner of the policy, the proceeds become part of his or her estate.

One solution to this potential problem is to get the life insurance out of the estate. That can be done by making a third party—such as a trust—the owner of the policy. This move insulates the proceeds from federal estate taxes. The $10,000 annual gift exclusion can be used to pay premiums on the policy.

The advantage of such a trust is that it gives you considerable control over how funds are distributed. It also avoids probate, the court-supervised administration of the terms of a will. Proceeds are available immediately to heirs.

There's a risk, however: If the insured person dies within three years of the purchase of the policy, the money is swept back into the person's estate. There must be no "incidence of ownership" by the insured within three years of death.

The Irrevocable Asset Trust

An irrevocable asset trust is similar to a life-insurance trust except that it is set up to transfer assets to another party, usually children. "The parents make annual exclusion gifts or single large gifts," says Kenneth Wenzel, an estate attorney in Fort Worth, Texas. "The purpose is to transfer assets to the children but not give them control of the assets."

In order to meet IRS requirements, the trust must permit the children certain windows during which they are entitled to withdraw the money. Of course, the idea is to convince the children that it is in their interest to leave the money untouched. "You might say that you will not contribute anything additional if they make a withdrawal," Wenzel says.

GRATs And GRUTs

Small-business owners should also know about GRATs and GRUTs—grantor-retained annuity trusts and grantor-retained unitrusts. These trusts allow the grantor the right to receive an income, or annuity, for a specified number of years. At the end of the trust term, say 15 years, the grantor's beneficiaries will receive the property held in trust, including all appreciation of its value, free of estate and gift taxes.

If you use a GRAT, your income amount is set up front. For example, it might be $50,000 a year. A GRUT, on the other hand, requires the grantor to receive a fixed percentage of the fair market value of the property each year. That would mean you would recalculate the income once a year.

"If you want to get rid of as much property as possible, you're better off with the GRAT," says Joshua Rubenstein, an estates partner at Rosenman & Colin, a law firm in New York City. "If you are really concerned about inflation, you'd rather have the GRUT."

GRATs and GRUTs can be used to leverage the transfer of a closely held business while retaining income and control. For example, you may be able to transfer $1 million worth of stock in a family business to a GRAT or a GRUT, making your children the beneficiaries and paying little or no gift tax.

The taxable value of the amount put in trust is reduced by the total amount of the annuity you plan to withdraw over the term of the trust, plus your unused unified credit up to the $600,000 limit. If the stock value grows to $5 million over the 15-year life of the trust, the entire amount passes to the beneficiaries without tax, thus leveraging the value of your unified credit. This leveraging strategy "can be particularly effective with a rapidly growing business," says Rubenstein.

The Charitable Lead Trust

Business owners who wish to leave money to charity may want to consider a charitable trust. The charitable lead trust provides income to charity during the term of the trust, and the property is transferred to beneficiaries at the end of the term. When you create a charitable lead trust, you get a gift-tax charitable deduction at the time equal to the present value of the annuity that the trust will pay to the charity.

This type of trust, which was used by Jackie Onassis, is particularly useful if the family has no current need for income. If the gifted property appreciates during the term of the trust, the appreciation is free of estate tax. And the principal passes to beneficiaries tax-free.

The Charitable Remainder Trust

The charitable remainder trust reverses the order, giving the income to the donor or his family and the principal to charity. These trusts work particularly well for appreciated assets because the trust can sell the assets without paying income tax. The proceeds of the sale can be used to purchase income-producing securities. For federal income-tax purposes, the donor can claim a charitable deduction equal to the present value of the assets that will be donated to charity over the life of the trust.

If you are not interested in giving to charity, these trusts probably will not work for you. They should be considered for a small-business retirement plan in a large estate, however. "Because retirement plans get taxed so severely, the kids might get only 10 cents on the dollar," says estates lawyer Rubenstein. "The kids could actually do better with the income from a charitable trust." ■

Mary Rowland is a personal-finance writer in New York City.

TAXES

Is It A Hobby Or A Business?

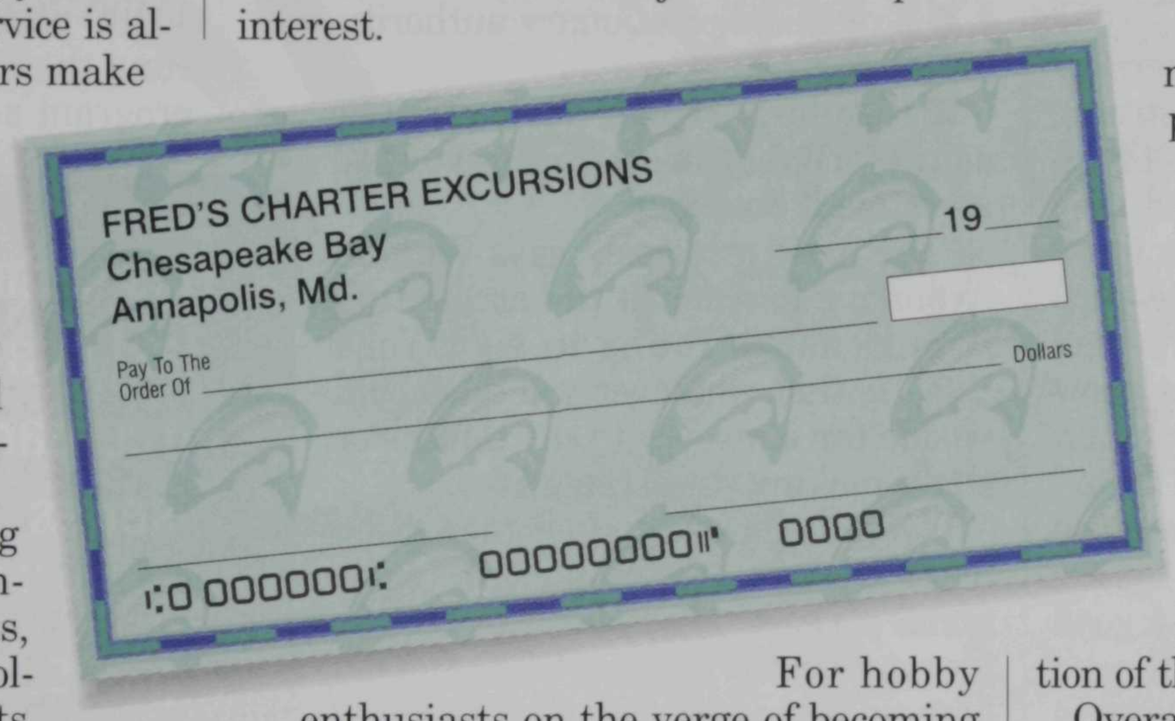
If you have a hobby that could grow into a business, you owe it to yourself to explore making a living from something you love. While the Internal Revenue Service is always happy to see entrepreneurs make money—and pay taxes—the agency also wants to make sure your new endeavor is in fact a business and not just a tax dodge.

When you convert your hobby to a business, you get a full range of business deductions, including deductions for losses.

Say you turn your sailing hobby into a charter-boat company. Before going into business, you shelled out thousands of dollars each year in boat payments, interest on those payments, docking fees, and storage costs—and couldn't deduct a dime. But as a charter business, you can claim depreciation and all of the costs of chartering your boat as deductible business expenses. And you may also deduct any losses.

By law, the IRS must presume your activity is carried on for profit. The catch is that your business must produce a profit in at least three of its first five tax years. (If your business is breeding, showing, or racing horses, it must produce a profit in at least two of seven years.)

If you fail the test, the IRS can reclassify your business as a hobby, and any deductions or losses that you claimed earlier could be subject to tax plus interest.



For hobby enthusiasts on the verge of becoming entrepreneurs, the IRS has a list of nine considerations used in determining whether an activity is actually a business. The agency takes each factor into consideration; no one factor is decisive in determining whether a hobby has made the leap to becoming a business.

1. Do you carry on your activity in a businesslike manner?

2. Do the time and effort you spend on the activity indicate that you intend to make it profitable?

3. Do you depend on income from the activity for your livelihood?

4. Are losses from the activity due to circumstances beyond your control? (Or are they normal in the start-up phase of the business?)

5. Are you willing to change your methods of operation to try to improve profitability?

6. Does the activity make a profit in some years, and how much profit does it make?

7. Do you or your advisers have the knowledge needed to carry on the activity as a successful business?

8. Have you made a profit in similar activities in the past?

9. Can you expect to make a future profit from the appreciation of the assets used in the activity?

Overall, the message is to conduct your business like a business: Open a business checking account, keep track of revenues and expenses, send out regular bills, and collect overdue accounts.

In an age of downsizing, it's probably a good idea to size up your options.

—Gloria Gibbs Marullo

The author is a CPA and financial writer in South Bend, Ind.

LEGAL DOCUMENTS

Protect Yourself Against The High Cost Of Dying

If you were in a coma after an accident or some catastrophic illness, would you want to be kept alive with tubes and machines when there was no hope of recovery?

Many people are familiar with situations in which patients have been kept on life support for months at a cost of thousands of dollars a day. Such a circumstance can wipe out a family's assets and bankrupt a family business.



"We warn our small-business clients about what can happen to them financially" if they find themselves in this situation, says Michael Leonetti, president of Leonetti and Associates, a financial-planning firm in Buffalo Grove, Ill. "Even if your medical insurance has a fairly liberal cap on hospital costs," he says, "the 20 percent coinsurance payments and other costs can eat you up."

Health-insurance policies typically have a lifetime cap of $1 million. The problem arises when a patient is in a "persistent, vegetative state" or is in a terminal condition and cannot voice his or her own decision on whether life-support efforts should be continued.

Karen Orloff Kaplan, executive director of Choice In Dying, a nonprofit consumer organization, says that in the absence of "advance directives that spell out your wishes when you can't speak for yourself," you have no assurance that your wishes can be complied with because health-care providers would have no basis for legal protection if, for example, they were to discontinue life support.

"Advance directive" is a general term that applies to two kinds of legal documents. One is a living will. The other is a durable power of attorney for health care, sometimes called a health-care proxy.

Through a living will, you put in writing what you want done—or not done—when you can't speak for yourself. A durable power of attorney for health care lets you appoint a family member or some other trusted person to make sure your wishes are carried out.

"Almost all of my small-business clients have living wills and durable health-care powers of attorney," says lawyer Richard Weiss of Weiss and Block, a Chicago law firm. "They have these documents drawn up around the same time they do their wills, trusts, and financial powers of attorney."

New York attorney Edward S. Schlesinger says: "You have to select your health-care agent very carefully to make sure he or she knows what you want done in a variety of situations and is prepared to ask the right questions and make the right decisions."

Adds Kaplan: "Circulate your advance-directive documents [living will and power of attorney] among family members, your doctor, and your business associates so that everyone is on the same page if the unthinkable happens."

—Peter Weaver

The author is a personal-finance writer in Bethesda, Md.

INVESTING

Employee Education On 401(k) Plans

By Randy Myers

Are your employees looking toward their retirement years through rose-colored glasses?

In a recent survey of U.S. workers by the Employee Benefit Research Institute, in Washington, D.C., three-quarters of the respondents said they were confident they would have enough money to live on in retirement. Yet 30 percent of those respondents had not saved so much as a nickel toward their retirement, and only 40 percent had tried to calculate how much money they would actually need by then.

The results are shocking if only because the amount will probably be a lot higher than many of them might guess. (A good rule of thumb is to figure that you'll need 70 percent of your pre-retirement income.)

Clearly, someone must help U.S. workers educate themselves about investing for retirement, and increasingly that someone is their employer, particularly employers who have substituted employee-funded 401(k) retirement savings plans for company-funded pension plans.



Until this year, however, providing investment education was a dicey proposition for employers who sponsor 401(k) plans, because of the federal Employee Retirement Income Security Act (ERISA). That law says employers who render "investment advice" could be liable for investment decisions made by their 401(k) plan participants and their beneficiaries. That means an employee who becomes unhappy with his 401(k) investment returns might be able to sue his employer for providing bum advice and win the case.

Unfortunately, ERISA provided little guidance on distinguishing between investment advice and investment information.

This year the Department of Labor provided some relief when it issued an interpretive bulletin that said employers aren't providing investment advice as long as they do not:

- Render value judgments on specific investments.
- Make recommendations on buying or selling specific investments.
- Exercise discretionary authority over investments.
- Regularly render advice that serves as the primary basis for employees' investment decisions.

"The basic principle," says William Arnone, a partner at the accounting firm Ernst & Young in New York City, "is that whatever you do should enable the employee to say that he or she is making the decisions."

Well-educated employees may be more receptive to replacing a traditional pension plan, which costs more for employers, with a 401(k). That's how employees at Midland Inc., an international marketing firm based in Fort Wayne, Ind., felt last year after their employer took care to educate them about the change.

Education "was a significant issue for us," says Midland's president, Jack Boersma. "It was important for us to explain to our employees why it made good financial sense to terminate the defined-benefit plan and why the 401(k) was a much wiser approach."

Midland relied on Buck Consultants, a New York City-based consulting firm with offices in Fort Wayne, to do the job. The educational effort included distribution of a wide array of investment literature, a group meeting, and the option of one-on-one advisory sessions with a Buck consultant.

Thanks in part to the success of that educational effort, all eight of Midland's U.S. employees eligible to participate in the plan chose to do so. (Broad employee participation is essential under Internal Revenue Service guidelines if owners and managers of small businesses want to contribute to their own 401(k) accounts at the maximum allowable levels.)

Of course, it isn't necessary to hire a third party to educate your company's workers. Many 401(k) vendors, from banks and insurance companies to brokerage houses and mutual-fund firms, provide that service as part of a turnkey 401(k) package. More important than who runs the education program is that the program address the topics most important to 401(k) investors.

This is the last in a three-part series on 401(k) plans.

Ernst & Young's Arnone says that "employees are doing three things that are cardinal sins if they want to retire at a good age"—whatever that age may be. "They're not socking enough money away, they're not socking it away where they should, and much of the money that they are socking away they're spending on things other than retirement."

Accordingly, any good investment-education program should help employees determine how much they'll need for retirement, how they should allocate their investments among different types of assets to reach that amount, and why, for most workers, they should be reluctant to tap their 401(k) savings for anything other than retirement.

"It's important that any educational effort become a continuing fixture of the 401(k) program," adds Buck Consultants principal Richard Koski.

Although there's little hard data yet, early research seems to confirm that employee-education programs can make 401(k) participants better investors. Surveys by the Employee Benefit Research Institute last year found, for example, that participants in plans that provided information on estimating income needs for retirement had the highest percentage of their assets allocated to stocks, the best-performing class of financial assets over time.

However you educate your employees, say 401(k) experts, you should deploy a wide variety of tools, which can range from group and individual meetings to newsletters, workbooks, and financial software.

"Good education programs recognize that some people like to learn by being taught and others like to learn by teaching themselves," says Arnone, and such programs "have offerings to accommodate both." NB

Randy Myers is a financial writer in Dover, Pa.



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Free-Spirited Enterprise

By Michael Barrier

I'll Take Manhattan—And A Manhattan

"The Cigar Bar." For some people, that phrase is instantly evocative—on the order of, say, "lethal injection," or "root canal," or maybe "IRS audit."

Mark C. Grossich had something entirely different in mind when he came up with that name, as we learned when we visited him not long ago at Beekman Bar and Books, one of three Manhattan bars he owns with Raju Mirchandani.

The Cigar Bar, a room tucked away discreetly in a corner of Beekman Bar and Books, is supposed to resemble an English gentlemen's club, and it does have a sleek, well-upholstered atmosphere. But far from barring women, it welcomes them, especially if they're cigar smokers (as some of them are).

The cigars—displayed in a floor-to-ceiling humidor—aren't your ordinary stogies. They range in price from $10 to $25 apiece, and a menu describes them in terms that readers of *The Wine Spectator* would find familiar. (One cigar has "sumptuous coffee and spice flavors"; another has "aromas of cedar and leather with a lush spicy flavor and smooth finish.) Puffing away in this congenial atmosphere will set you back at least $25, the required minimum purchase.

In its total effect, The Cigar Bar actually makes cigar smoking seem like a highly civilized pastime. That's the idea; and the same is true, on a larger scale, of the three Bar and Books, where activities that have come under growing societal censure in recent years—smoking cigarettes and cigars and drinking hard liquor—take on a mellow glow.

Grossich and Mirchandani opened their first Bar and Books, in Greenwich Village, about five years ago. The Beekman Bar and Books, on the midtown East Side, followed a year and a half later, and the third, on the upper East Side, about a year after that.

"In essence," Grossich says, "our idea is really a bar for adults." The target group is the over-30s—an age group growing in numbers, of course, because of the aging of the baby boomers.

"My partner and I are both baby boomers," he says, "and we went to the singles bars and the theme bars and whatever else. We felt there was an opportunity in the marketplace for adult cocktail lounges, where an older clientele could come and hear themselves talk, and where there were finer liquors and better service—a private-club atmosphere, but without the arrogance of a private club."

Grossich sees Bar and Books as part of a "return to elegance"—"a throwback to the '50s and '60s, when people assumed they wore jackets to places like this. We threw Mel Gibson out of here three times" because he showed up without the required jacket, "and now he's a regular. You've got to draw the line somewhere."

The dress code "has cost us dearly," he says. "We turned away 70 people Saturday night. But you can't reinvent the rules every day."

The residence-like decor—fireplaces, lots of wood paneling, lots of old books on the walls—is an important part of the package, but as Grossich is quick to concede, only a small part. "In this business," he says, "too often, people confuse interior design with a concept. The two are very different."

A concept involves combining a lot of elements in a harmonious way—so that, for example, a bar not only *looks* mellow, but its guests are made to *feel* mellow, too, with the help of well-trained, attentive servers and high-quality booze. And a $50,000 ventilation system keeps the place from smelling a little *too* mellow, even though cigar and cigarette smoking are permitted throughout the bar.

Grossich grew up in the Chicago area and has an MBA from Northwestern University. He has been involved in a host of disparate businesses—as a community-newspaper publisher, owner of a modeling agency, brand manager for a household-products company—but "marketing is the common thread," he says.

He was a marketing consultant when he met Mirchandani, whose experience was in hotel operations. They discovered a common interest in opening a bar. Bar and Books was the result, and now Grossich is, in effect, Mr. Outside, and Mirchandani is Mr. Inside.

Grossich moved to New York in the late '70s, and it was, he says, a natural fit. Bar and Books is, in fact, like a transplant's dream of Manhattan in a sort of Golden Age—not so much the '50s and '60s that Grossich cites, but an earlier period, perhaps the late '30s or, even better, the late '40s, when the city was enjoying postwar prosperity, and postwar problems had not yet reached intimidating size.

It's the sort of bar, in other words, where you might expect to find not Mel Gibson but Spencer Tracy and Katharine Hepburn sitting at the next table; or maybe Myrna Loy and William Powell in their "Thin Man" days—but are dogs allowed? Would Asta have to wait outside? We forgot to ask. NB

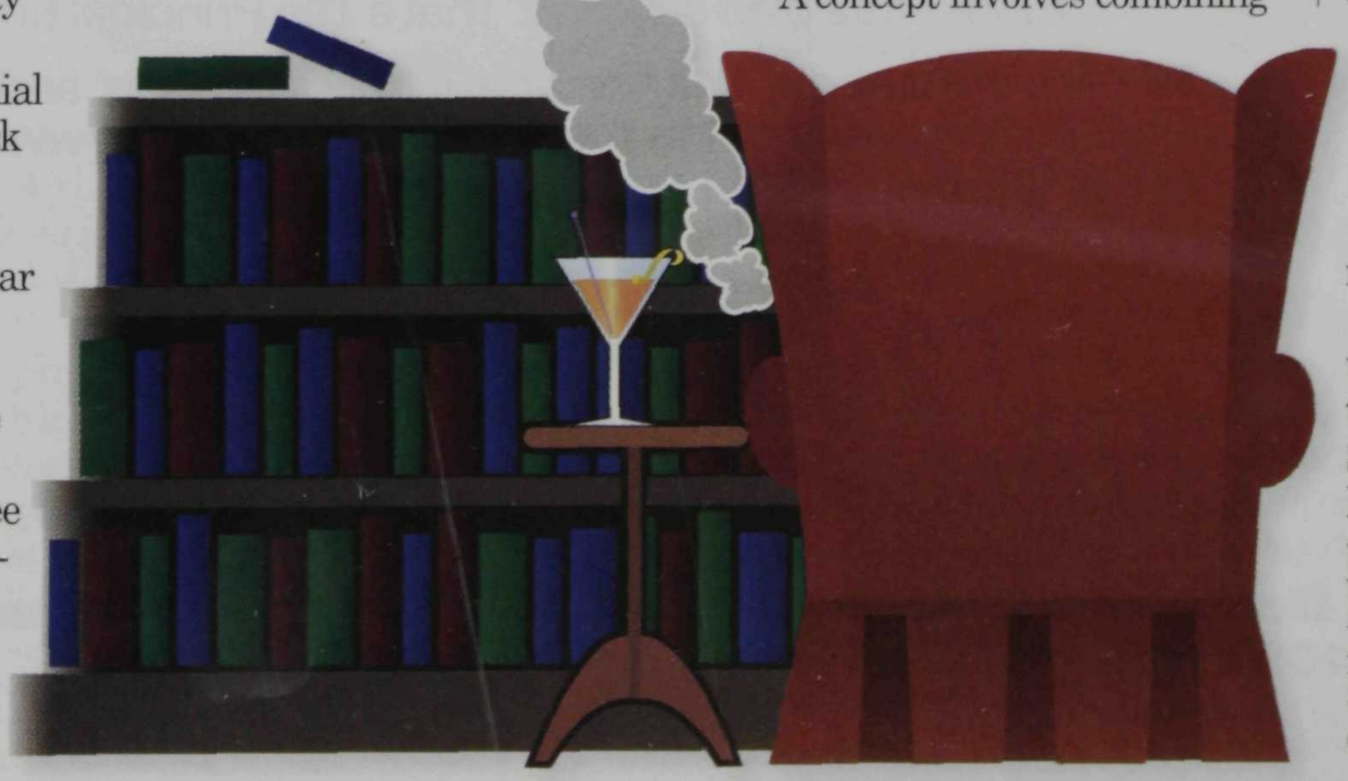


ILLUSTRATION: MICHAEL ROOK

FRANCHISING

Franchising SPECIAL GUIDE

Prospecting For Gold

In their focus on target markets, franchisors are tapping a new breed of experienced candidates.

By Roberta Maynard

J. Adaire Putnam used to run a successful consulting business. Mike Shamshoum, an immigrant from Israel, owns two profitable auto-body shops, but his ambitions stretched higher. Tony Melvin recently retired from the Army as a lieutenant colonel.

Good franchising prospects? You bet.

By all available evidence, franchising is attracting increasing numbers of ex-owners of nonfranchise businesses, former corporate executives, early retirees, and others who are coming into the job market looking for second careers and new opportunities. For such people, franchising represents a change and a challenge.

Most important for those who have already spent years learning a skill or climbing the corporate ladder is the promise of a short learning curve, which franchise systems offer. Often driven by a desire to meet financial goals in a short time or to continue a comfortable lifestyle, these individuals want to see results quickly.

Corporate and military downsizings have yielded a rich crop of qualified franchisee prospects in recent years. Franchisors, knowing that these individuals often leave their previous employment with sizable severance or early retirement packages and substantial management experience, are pursuing them.

In Search Of Experience

One franchisor pursuing former corporate managers is Franklin's Printing, Digital Image, and Copying, in Atlanta. About 18 months ago Franklin's began targeting early retirees ages 45 to 55. Last year, at least 75 percent of its prospects were early retirees or victims of downsizing.

Another company that has recognized the value of attracting former corporate executives and managers is The Maids International, a 15-year-old residential-cleaning franchise based in Omaha, Neb. "From the very early stages, we decided that business people would do exceedingly well [with us] if we could just overcome our image as a blue-collar business or a business just for women," says Dan Bishop, president of The Maids. "If we can get them to our headquarters, the light goes on, and they realize that running this franchise is a management challenge."

The company targets former or departing executives by participating in joint seminars with the U.S. Small Business Administration and the Service Corps of Retired Executives, known as SCORE. And efforts by the company to develop relationships with outplacement firms—which had resisted because of a mind-set that they had to find their clients executive positions, not business opportunities—began to bear fruit about two years ago, Bishop says, when the firms started to "open their doors to us."

In the past three or four years, more than 50 percent of The Maids' prospects have been former or exiting corporate executives, up from about 20 percent five years ago.

Disillusionment and concern about job



PHOTO: ©JOHN ALEXANDERS—BLACK STAR

Golden Bagel Corp.'s *president, Joe Sanfellipo, left, says the work ethic of immigrants such as Mike Shamshoum makes them prime franchisees.*

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security have fueled the move from corporate life to entrepreneurship, including franchising. "I've heard that [outplaced] people are skeptical about going back to a corporate environment," says Bishop. "They are saying, 'From now on, whatever I do, I want to do for myself.' "

There are also a lot of prospects who are still working but who are searching for something else, Bishop says. "They are on the edge; they have knots in their stomachs, worried about when the ax will fall." They have begun to investigate franchising, too, he says.

Harry Edgar, a franchisee of The Maids with four locations in the Pittsburgh area, is like many of the executives now making the transition from corporation to franchise.

Edgar was a 50-year-old senior vice president at Lerner's Stores Corp. when the retail chain was sold. He had been with the company for 25 years. Facing probable relocation and a changed corporate structure, he studied his options, eventually left Lerner's, and bought a franchise.

After having managed 100 Lerner's stores in a nine-state area, running a single store on his own was no small adjustment for Edgar. When he was short of help, he had to roll up his sleeves and do the work himself.

Now 61, with a successful operation, Edgar doesn't regret the decision he made 10 years ago. "I would do it again in a minute," he says. "When you're successful as a business owner, you can give yourself a pat on the back. It is tremendously satisfying."

Franchisees such as Edgar are a challenge for franchisors but also a benefit, says Bishop. "They are stronger buyers. They're intelligent, they scrutinize your operation and do due diligence. Because of their business background, it's easier to train them, and they're willing to be aggressive. We get a better relationship."

Bishop attributes the company's 25 percent increase in sales last year largely to the influx of franchisees from a corporate background.

Re-enlisting The Military

Officers planning to leave military life are another group with a growing interest in franchising. "People in the military understand systems and know that teams, not individuals, win," says Howard Bassuk, president of Franchise Network USA (Frannet), a San Diego-based firm that helps franchisors find qualified prospects.

Frannet recently worked with Tony Melvin, who retired in November as a lieutenant colonel after 23 years in the Army. He could have stayed in the military a few more years but didn't want an overseas assignment. His search of the private sector turned up jobs that would have required him either to relocate from Baltimore or to go back to school. An Army-sponsored seminar led him to explore small business and franchising.

"I had looked into running my own business," says Melvin. "The more I looked at it, the more it appealed to me. What I liked about franchising is the idea that they offered a proven system and that I didn't have to start from scratch."

> **"In a competitive world, franchised businesses are pretty simple."**
>
> **—Howard Bassuk, President, Frannet**

Melvin bought a United Check Cashing franchise and is set to open a store in Baltimore in June. "You have to have the ability to be your own boss, to be a self-starter, and to be well-disciplined," he says. "I think my military background helps me there."

Although outplaced individuals and retirees are some of the hottest prospects in franchising these days because of their assets and experience, other groups are also being pursued by franchisors. They include former business owners, women, immigrants, gays and lesbians, and even college students.

Business People's Experience

Many owners of nonfranchise businesses have learned that it's too hard to compete as an independent, and they know how hard it is to have to make all the decisions, says consultant Bassuk. "In a competitive world, franchised businesses are pretty simple. Business people believe it's easier to [own a] franchise."

But sometimes they're surprised at first. Consider Karen Lyon. A 44-year-old registered nurse with an MBA and her own health-care consulting practice in El Paso, Texas, Lyon was tired of her field and wanted to do something totally different that would allow her to prepare financially for retirement. In September, she opened El Paso's first Java Centrale cafe franchise.

Lyon had to work such long hours—as many as 70 a week—that she lost 20

pounds in the first 10 weeks after her store opened. "I had no idea what it took to operate a retail business. It was very difficult."

On the other hand, J. Adaire Putnam is finding that franchising can have a short learning curve. A marketing consultant in Coldwater, Mich., she decided to put her marketing degree, MBA, and 20 years of experience to work developing franchise stores.

After a franchise show last year piqued her interest, she researched the service businesses that appealed to her and settled on Parcel Plus, a mailing- and office-services franchise. She's scheduled to open her first store in Kalamazoo by the end of this summer. Soon thereafter, she is to develop new stores for Parcel Plus elsewhere in Michigan as well as in northern Ohio and Indiana.

"I wanted to be part of something that was growing," Putnam says. If she had opened such a store on her own, "it would have been too much to figure out pricing, inventory, and all the details of the business." Her plan is to move fast and do well. She wants to retire in 10 years and live abroad.

It is driven, goal-oriented women like Putnam that Parcel Plus hopes to attract in greater numbers. "We've had such good success with women," says Kellen Furness, vice president of operations for the company, based in Annapolis, Md. "There is a whole new breed of corporate women and also those who have owned their own business. They're strong, trained, educated. Instead of letting them accidentally find us, we're going to start targeting them.

"Women feel that there is still a slower path for them. In your own business, your own skills and work determine how far you can go. I think that attracts women."

The Immigrant Ethic

Immigrants offer an unmatched entrepreneurial spirit and drive to succeed, many franchisors have found. Mike Shamshoum owns two successful body shops in Southern California, but he wanted more, he says. He wanted to develop a large, growing operation, and he decided franchising was the only way to do it.



PHOTO: ©SCOTT GOLDSMITH

Success as a business owner *is satisfying for former executive Harry Edgar, who has four franchise locations of a residential-cleaning service.*

Growth is important to many immigrants, he says. "I am the first generation here. I have to build a base for my children." He came from Israel 14 years ago without knowing a word of English. His first job in the United States was working 15-hour days in a Dairy Queen.

"You can only grow so big in [your own independent] business because you can't be everywhere; you can't manage every day-to-day thing and plan for the future, too," he says. "When it comes to marketing, advertising—the things that most business people don't have time for—the franchise company thinks for you."

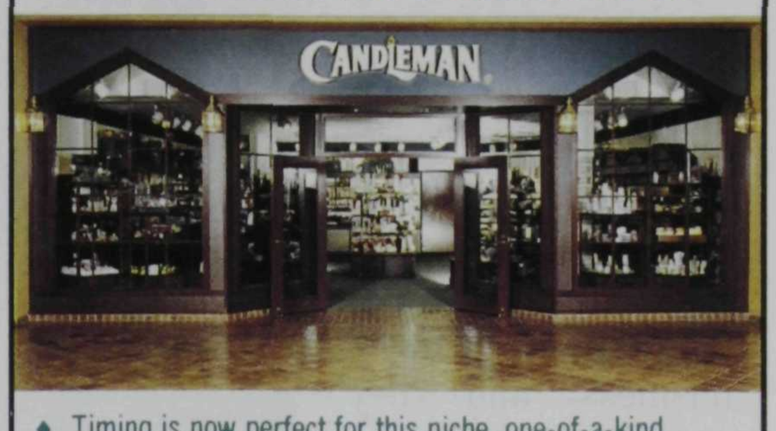
Shamshoum opened his first Golden Bagel Cafe last fall in San Diego, becoming the company's first franchisee. "I would like to open many stores—into the hundreds," he says. "As soon as I open two or three, I want to sell the body shops."

Golden Bagel's president, Joe Sanfellipo, has had such good luck with immigrants as franchisees that he is seeking them out and has plans to advertise in newspapers overseas for prospects to open stores in the U.S.

The year-old company has opened six stores, has eight under construction, and plans to open 300 more over the next five years. Most of the new company's franchisees are immigrants.

"Immigrants are our most underused asset," says Sanfellipo. "When they come

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to this country, they want to succeed quickly and concentrate on work. Many, especially Asians, save their money to go into business.

"People who come here don't think anything is owed them by the U.S. They see an opportunity to be in business, and they want to excel. We see a huge difference in the work ethic [between them and those born in the U.S.]—they are very dedicated, and they work very hard. We think it's one of the things that's going to build the strength of our company."



PHOTO: T. MICHAEL KEZA

Goal-oriented women *like J. Adaire Putnam are the type of franchisee sought by Parcel Plus, a mailing-services company.*

Prospects On Campus

Although there are many prospective franchisees with years of experience in business, Dave Haglund, president of Kitchen Tune-Up, in Aberdeen, S.D., is looking instead to young people. He is targeting college students close to graduation for the home-based wood-repair and refinishing business. It's a feasible approach, he says, because the franchise fee, the cost to enter the system, is $12,000 to $16,500, a low range in the franchise industry.

"Young persons in their 20s want to take risks and want to work hard," he says. "They're driven, and they have a high level of enthusiasm. Young people are realizing that business is the way to go; they're seeing downsizing, too, and they don't

Upcoming Events

June 1 and 2: A franchise expo in Los Angeles sponsored by the International Franchise Association. Call the IFA, (202) 628-8000.

June and July: Two-day expos featuring small franchises will be held in Long Beach, Calif., Toronto, San Diego, St. Louis, and Pittsburgh. For a schedule, call SC Promotions at (303) 799-9700.

July 1-31: In-depth seminars will be held two nights a week at the University of Texas at El Paso's Franchise Center. Cost for the month is $650; call (915) 747-7730.

Sept. 14: A one-day franchising seminar will be held at the Franchising & Licensing World Center, in Chicago, sponsored by the International Gay and Lesbian Franchise Association. Free to IGLFA members; $100 to nonmembers; (602) 949-7848.

Sept. 18-20: Franchise seminar at the University of Texas at El Paso's Franchise Center. Cost: $825 if paid before Sept. 6, $900 thereafter. Call (915) 747-7730.



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want that to happen to them."

A year ago Haglund began attending university job fairs, offering to finance or guarantee up to $14,000 of the franchise fee through loans. So far, he has signed up four college grads.

But because of the lag time in attracting students who won't graduate for several months, Haglund has also started a program to bring students on board well before graduation. He recruits them to be franchisees' associates, who will develop business in their college towns.

If they sell a job or two each month and meet a threshold of dollar sales, Kitchen Tune-Up finances all but $4,000 of the investment cost, which includes the franchise fee and supplies. In the first three months of the program, which began in January, Haglund had about a half-dozen students in the program. "We're hoping the success rate will be high when they become franchisees because they already know the business," he says.

"Many more franchisors are focusing on diversity, and minority groups recognize the opportunities."
—Terrian Barnes, International Franchise Association

Connecting To Gays And Lesbians

Franchisors' search for qualified prospects includes appealing to the gay and lesbian community. According to the year-old International Gay and Lesbian Franchise Association (IGLFA), interest from franchisors in targeting its members has been unexpectedly strong.

"When we started the association, we didn't think franchisors would be so interested and receptive," says Tom Cutler, the association's president. "Now, quite a few franchisors are coming to us asking how to tap this market"—one that Cutler says is, on average, affluent and well-educated.

To date, about 600 franchisors have

For Information

The following resources can be used to explore opportunities in franchising:

■ Women In Franchising, Inc., Chicago; (312) 431-1467. Offers contacts, information, and seminars.

■ International Gay and Lesbian Franchise Association (IGLFA), Scottsdale, Ariz.; (602) 949-7848; e-mail: *gayfranch@aol.com.* Offers a newsletter, a directory, and information.

■ Edison & Co., a franchise consulting firm in Miami; 1-800-624-0676. Offers an information program for U.S. Hispanics interested in franchising.

■ International Franchise Association (IFA), Washington, D.C.; (202) 628-8000. Offers seminars on franchising and a $15 listing of franchises and franchise brokers, *The Franchise Opportunities Guide.*

■ Outplacement firms and military career centers can provide information about local seminars on franchising.

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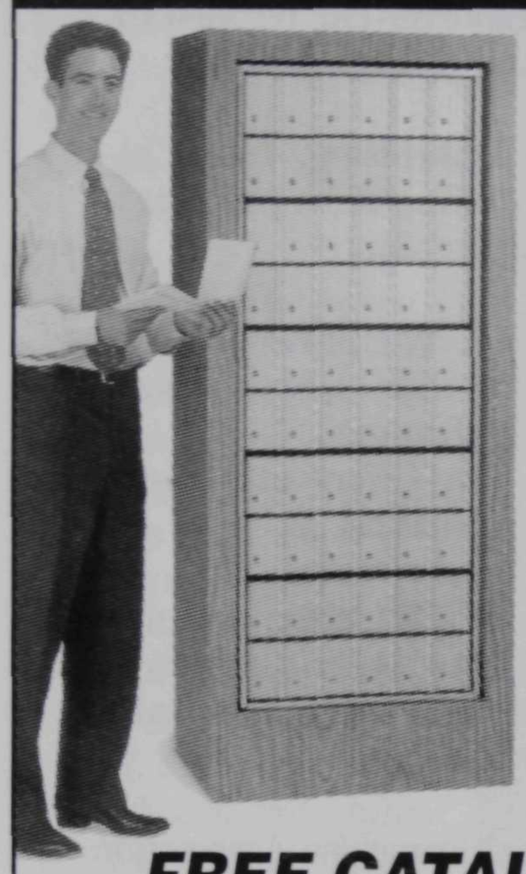
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signed an IGLFA document confirming that they have nondiscrimination policies regarding the awarding of franchises to gays and lesbians. About 24 franchisors have placed ads for franchisees in the association's journal, *Franchisewise.* The Southland Corp., parent company of 7-Eleven convenience stores and a longtime advocate of diversity, has contracted to run four ads in the journal this year.

Several franchisors have gone a step further, becoming members of the association. One is a new franchise, Ecomat, an environmentally friendly clothes-cleaning company in Mamaroneck, N.Y. Ecomat, which began franchising last year, requires an investment of $225,000 to $318,000 and liquid assets of $150,000 for a full-service facility.

"We want to tap this market because we know about their income," says Laine W. Wilder, Ecomat's director of marketing. "We're very comfortable with saying this is one of the groups we anticipate marketing to, and I'm very optimistic about these efforts."



PHOTO: T. MICHAEL KEZA

College students, *with their high level of enthusiasm, are being targeted for Kitchen Tune-Up franchises.*

Although several franchisors are seeking individuals they think will have a head start on success as franchisees, others say they don't do any targeting.

A franchise consultant in Miami, Christopher Descalzo, has been disappointed in franchisors' lukewarm response to his efforts to help Hispanics become franchisees. Descalzo, president of Edison & Co., says that he has talked with 400 franchisors about targeting the Hispanic market. "It has been an uphill battle. They just don't feel comfortable with it.

"Franchisors continue to try to get prospects through mainstream advertising and seminars on franchising, but I never see them advertise in Spanish-language business publications. They're completely missing out on this market."

Yet minority groups and others are increasingly drawn to franchising, as evidenced by the appearance of franchising on many agendas of association conferences.

"Many more franchisors are focusing on diversity, and certainly the minority groups recognize the opportunities in franchising," says Terrian Barnes, vice president of public affairs at the International Franchise Association, in Washington, D.C.

Increasingly, Barnes says, she is asked to work with groups to establish a franchise component at their annual conferences. Last year, she worked with the National Association of Women Business Owners, the Urban League, and the U.S. Hispanic Chamber of Commerce. She is currently working with the National Association for the Advancement of Colored People on its annual convention this year.

"Women and minorities have gained a certain level of success in corporate America," says Barnes. "Now that they've made some inroads, the pool of those who have the wherewithal and interest in franchising is increasing."

Given franchising's annual growth rate of 10 percent and the increase in competition, targeted marketing efforts may be an imperative for all franchise companies except perhaps the very biggest—those that can pick and choose among prospects on long waiting lists.

When it comes to awarding franchises, "hard work, dedication, and commitment are qualities that never change," says Frannet's Bassuk, "but, in addition, franchisors are putting more of an emphasis on management skills and on matching prospects' skills to the business." Especially in mature industries, he says, "franchisors today want to find the most ideal fit." NB

Direct Line

Experts answer our readers' questions about starting and running their businesses.

By Laura M. Litvan

DISTRIBUTION

Delivering The Goodies

A few years ago, my husband and I started a business producing big, healthful (and not-so-healthful) cookies and then delivering them to convenience stores and espresso stands. I have been delivering the cookies myself. Now that the business has grown, we need someone else to handle distribution. How do we find a distributor?
M.W., Stanwood, Wash.



ILLUSTRATIONS: MARTHA VAUGHAN

If your business is already expanding and you're ready for some outside help, you ought to consider working through a food broker, says John Bloom, vice president for operational services at the National American Wholesale Grocers Association, in Falls Church, Va.

Food brokers represent the interests of food-product makers, generally by negotiating with grocery stores and other retailers to obtain orders and store shelf space, which can be scarce. But just as important, says Bloom, brokers can offer small-business owners guidance on distribution, marketing, and other matters.

At a time when competition for retail shelf space is intense, small firms with new food products are clamoring to become clients of these brokers. Because brokers generally don't take on competing products, you would have to find a food broker in your region who is not already representing a similar cookie product, Bloom says.

Be aware, however, that if you contract with a broker, you would be taking your home-based cookie business into some very new directions. The issues you would face go well beyond distribution.

Food brokers get to keep a percentage of sales they achieve for a manufacturer as their fee, so they have every incentive to look for volume sales with grocery chains, Bloom says. In other words, no matter how tasty your cookies are, a broker might not bite if you want to stick to espresso stands and other small retail settings. But having a presence in grocery stores could open up a host of new considerations for you, ranging from product packaging to production capabilities.

If you want to consider using a food broker, check with the National Food Brokers Association, in Reston, Va. The trade group's monthly newsletter, distributed to food brokers nationwide, runs free ads from food manufacturers seeking brokers. You could place an ad listing information about your product, and brokers who might want to take you on as a client could contact you directly.

If you want to contact brokers on your own, you can buy the group's $125 directory of members. To make use of either resource, call (703) 758-7790.

Of course, not every entrepreneur wants to grow the business like gangbusters. If, after careful contemplation, you decide to keep your customer base as it is, your goal is simply to find someone to deliver for you so you can stop putting so many miles on the family station wagon.

If you go this route, your first step should be to contact your local chamber of commerce, says Lisa Hansen, a program assistant with the International Dairy-Deli-Bakery Association, in Madison, Wis. Officials there can probably point out some local distributors you could contact or who could give you leads on other local food businesses that might offer advice. ■

HOW TO ASK

Have a business-related question? Mail or fax your typewritten query to Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062-2000; (202) 463-3102. Or transmit your question to our CompuServe address: 76436,1735. Be sure to include your address and telephone number. Because of the high volume of letters, we can answer only those that are chosen for publication. Questions may be condensed, and writers will be identified only by initials and city.

GETTING STARTED



Christian Suppliers

I am interested in starting a Christian supply store. Where can I go for information about supplies, such as Bibles, choir robes, etc.?
I.B., St. Gabriel, La.

For $90, you can purchase a directory of suppliers of goods for Christian retail stores from the Christian Booksellers Association. Call the group in Colorado Springs, Colo., at (719) 576-7880.

Help With Homework

I am interested in getting into the area of providing home health care for the elderly. Where can I get information about this field?
J.T., Petersburg, Va.

The National Association for Home Care, in Washington, D.C., provides some resources for newcomers to the field, including a package of information on how to launch a home-health-care business. You can contact the group at (202) 547-7424.

Here's The Scoop

I own an ice-cream shop, and I'm having a difficult time finding information pertaining to my industry, such as dates for upcoming trade shows. Any suggestions?
G.S., Jackson, N.J.

The National Soft Serve and Fast Food Association, in Waynesboro, Pa., holds an annual conference for your industry each January. To learn about the conference and other resources offered by the organization, call 1-800-535-7748. ■

OUTSOURCING

Netting A Client Roster

I have launched a home-based data-processing business, but I'm having trouble locating large companies that might want to contract out such work to me. How can I find companies that want to outsource to a small business?
M.H., New York City
(Similar question was received from S.P., South Sioux City, Neb.)

Try following the example of Sharon Brill, owner of a Chantilly, Va., printing and graphics firm, who has used the old-fashioned shoe-leather approach to landing corporate accounts.

By networking with other local businesses and groups in Fairfax County, Va., she has built a client roster that includes Mobil Corp., which is based in the city of Fairfax, and Washington Gas Co., a large utility serving the Washington, D.C., area. Her company has only two employees.

Brill, president of RAELYN Inc., says she doesn't use cold-calling to find clients, and she advises that you reject this approach, too. She says that networking through a local chamber of commerce or other business group is probably the best way to get started.

In her case, she turned to the Fairfax



County Chamber of Commerce, which each year holds a conference on "Partnering with Big Business." That helped her meet corporate executives who eventually hired her to print their newsletters, brochures, and other items.

The county's chamber also offers a "matchmaker" database for members; it's kind of like a computer dating service for large and small firms that want to meet and establish business relationships. The database also has given her some good leads.

"Most local chambers are very conscious of the need to promote business relationships between small and large businesses," Brill says.

Meanwhile, she has developed cooperative relationships with other local printers, and sometimes she gets work through these competitors. In one instance, a local printer couldn't meet a client's specialized needs on a project, so it referred the customer to her.

Now that Brill has a steady stream of clients, she gets some of her business through customer referrals. In one instance, she produced loan brochures and an annual report for a local credit union, and officials there recommended her to another credit union, which contracted similar work to her.

Brill suggests that you order professional-quality business cards and stationery before you start networking. Make sure your business cards present your chief areas of business, so that corporate recipients later will have a clear reminder of your capabilities. Brill's cards say "RAELYN" and, in smaller type below, "Graphics Printing Advertising."

Her parting advice: When in doubt, get out of the office. "It's going to take a lot of work to develop your client base," she says. NB

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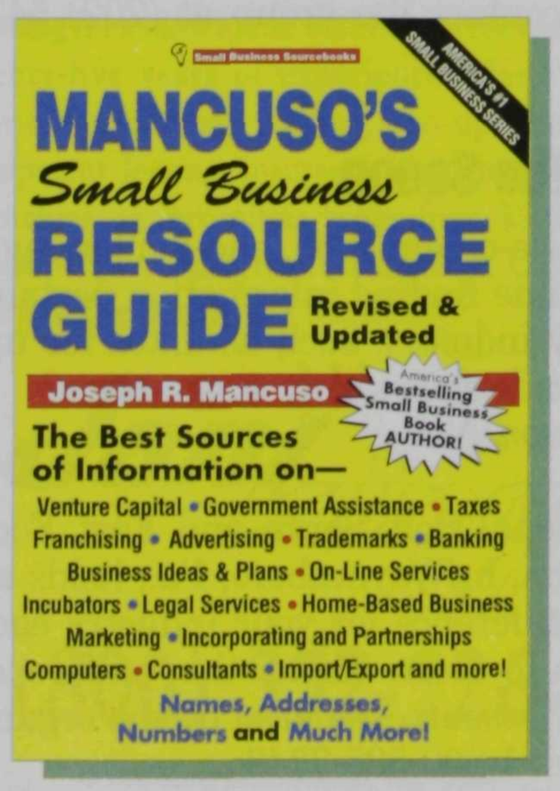
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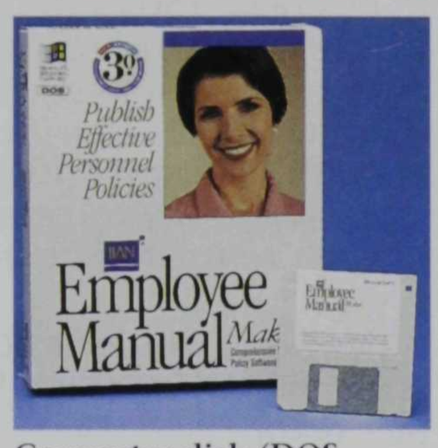
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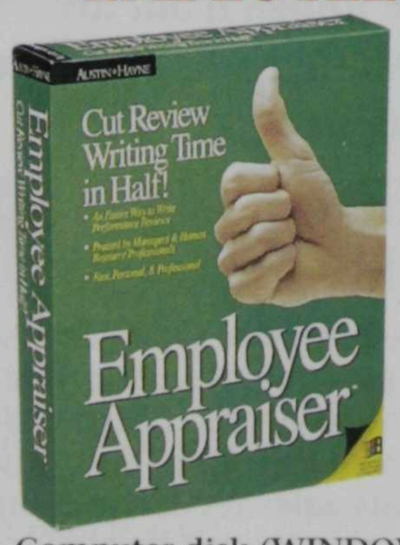
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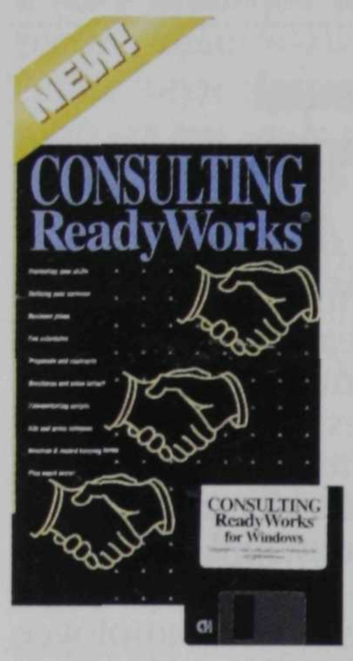


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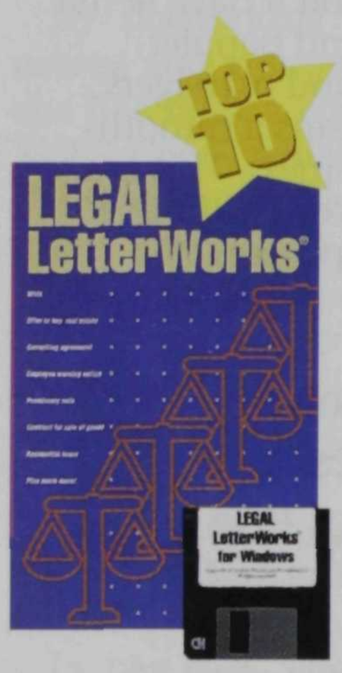
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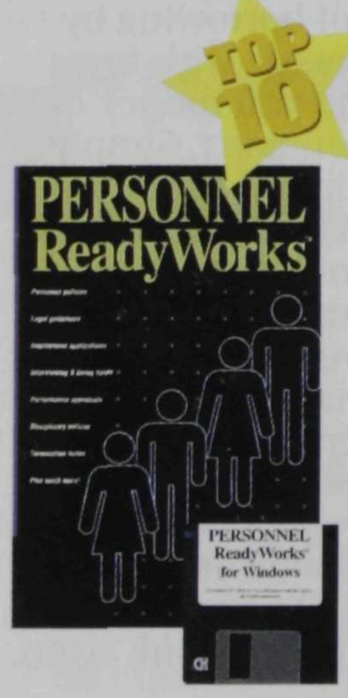
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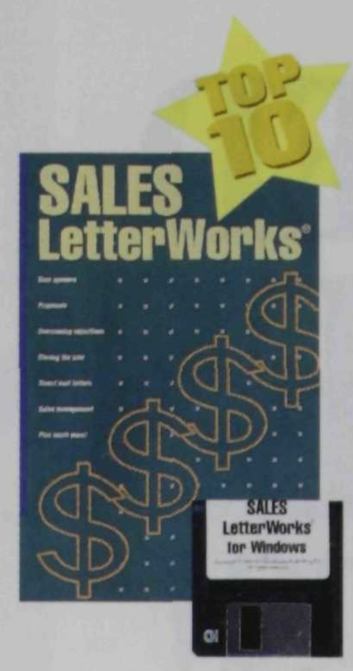
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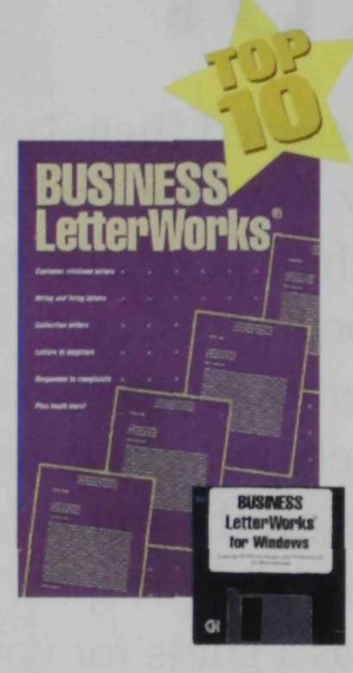
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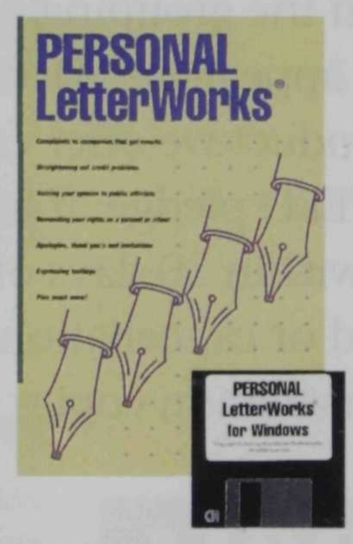
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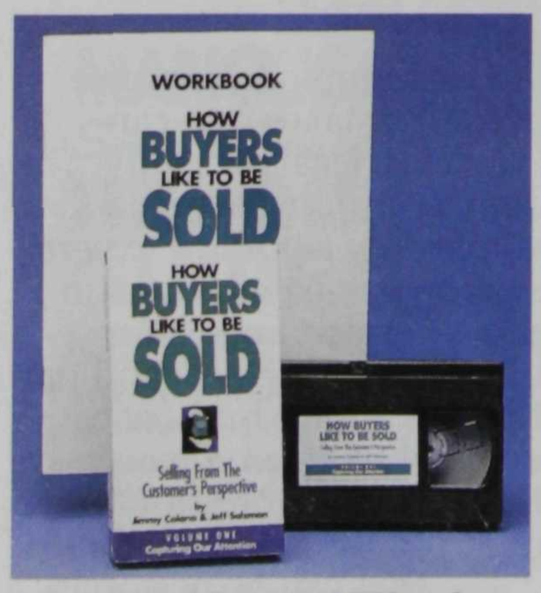
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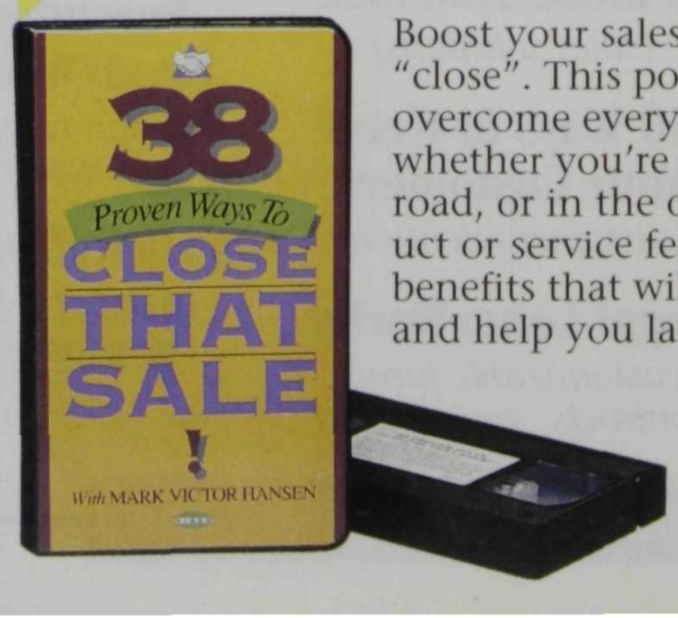
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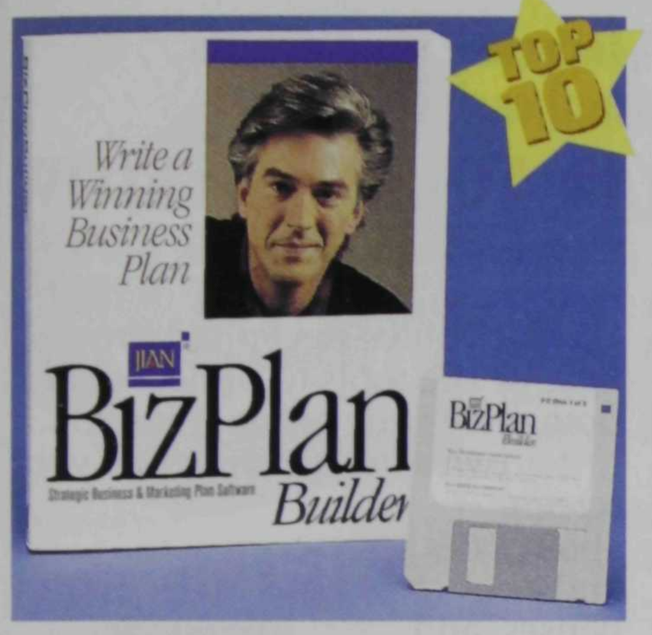


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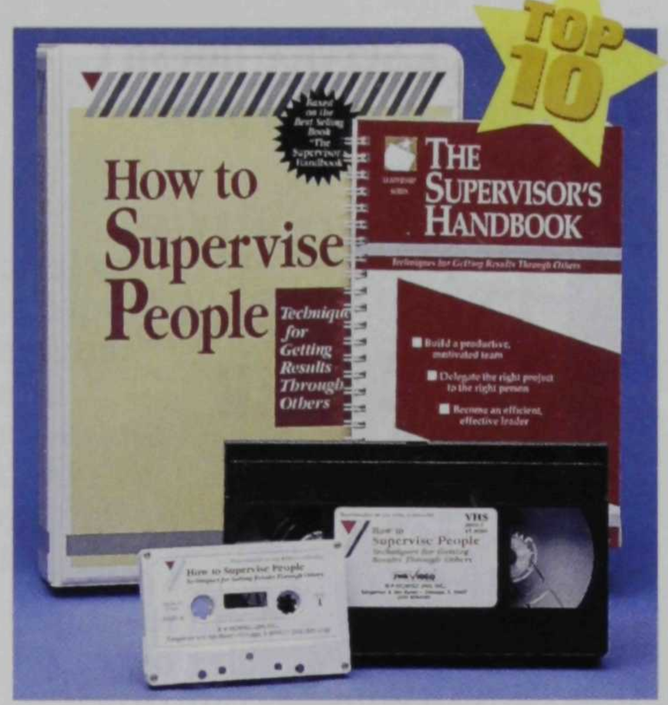


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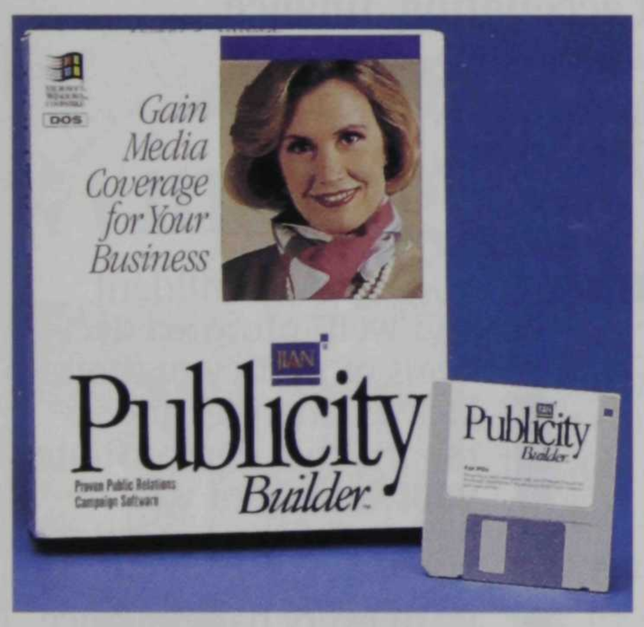


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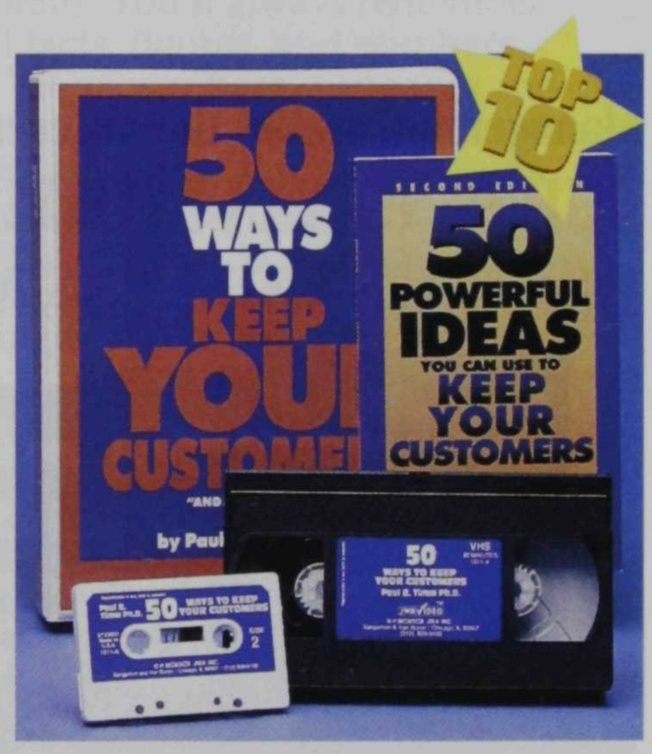
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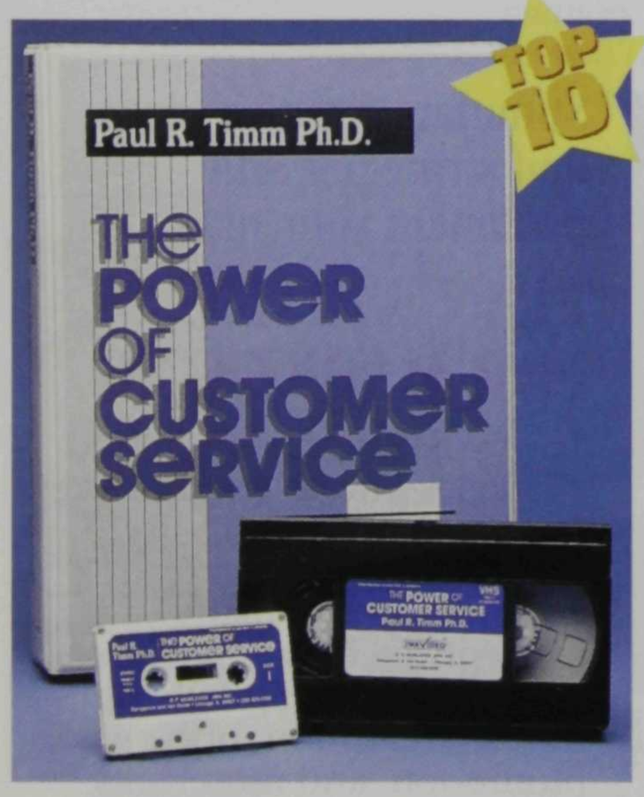
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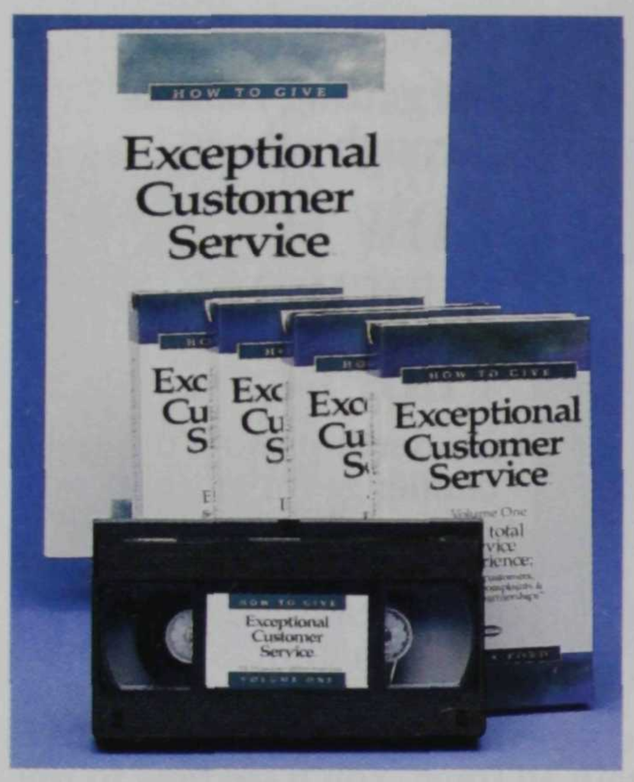
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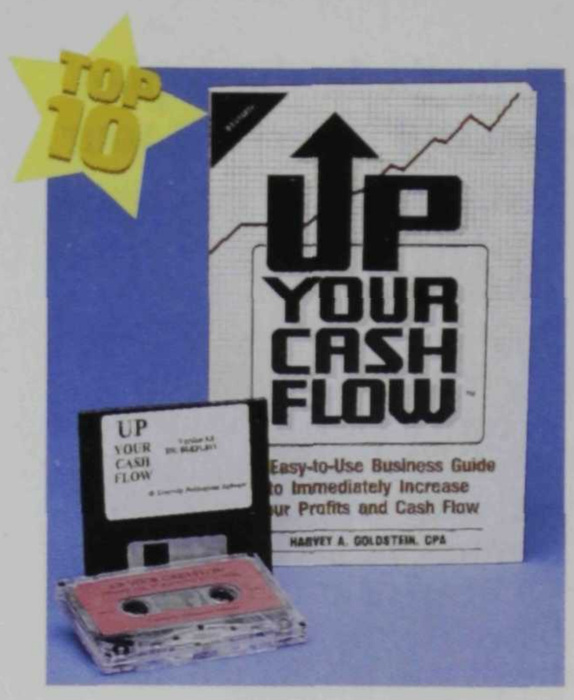


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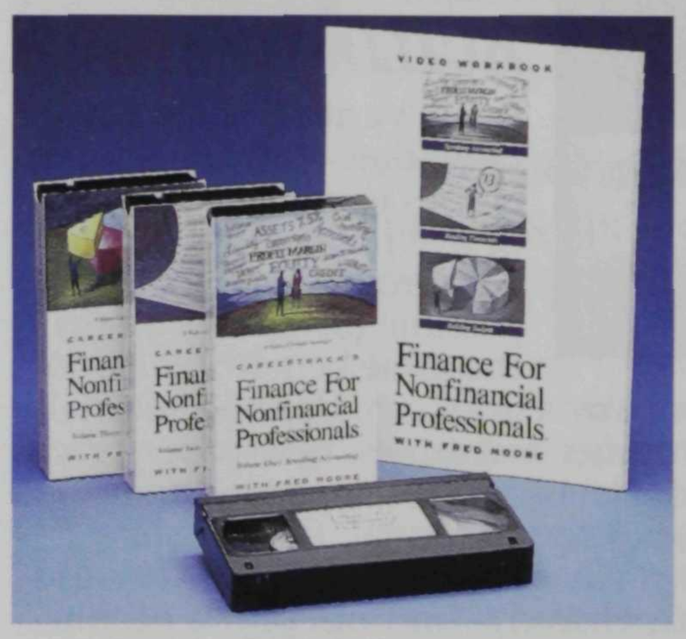


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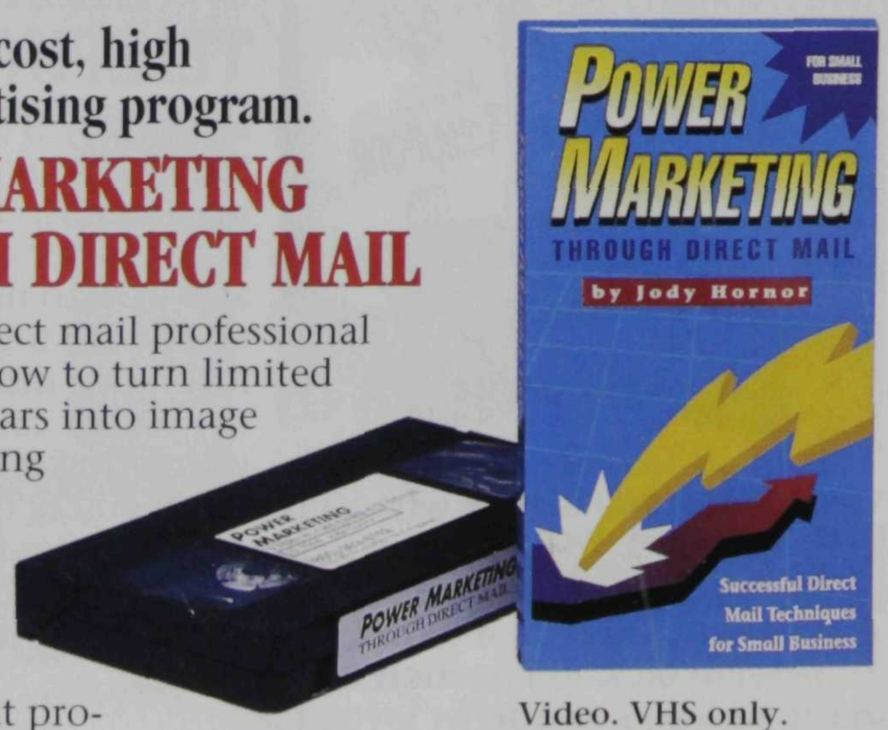
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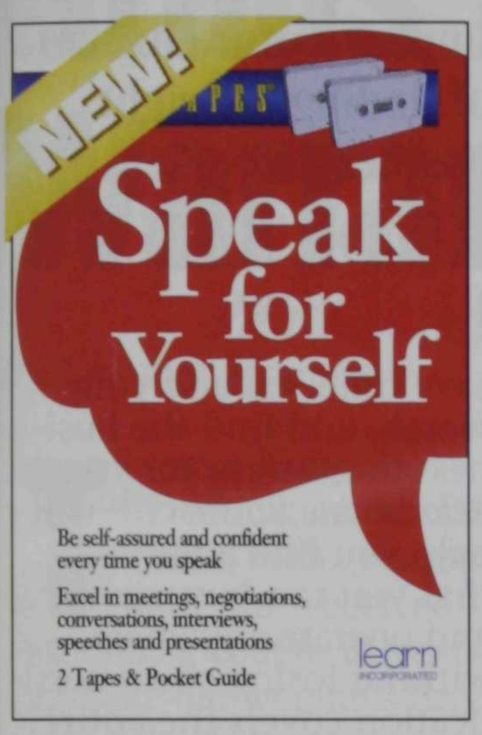
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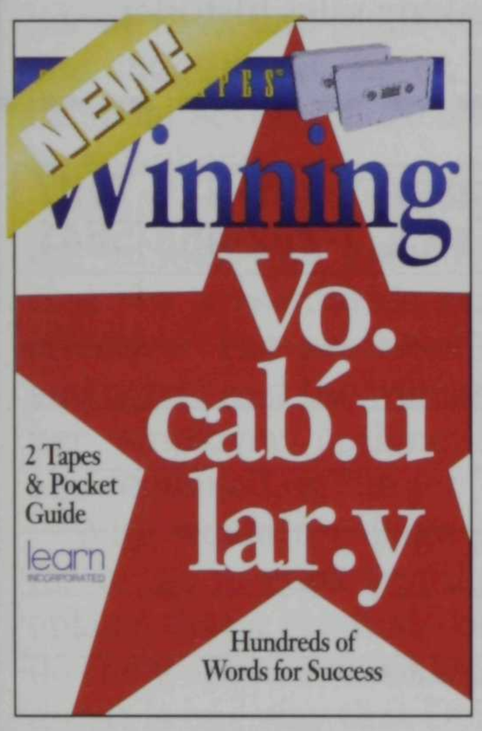
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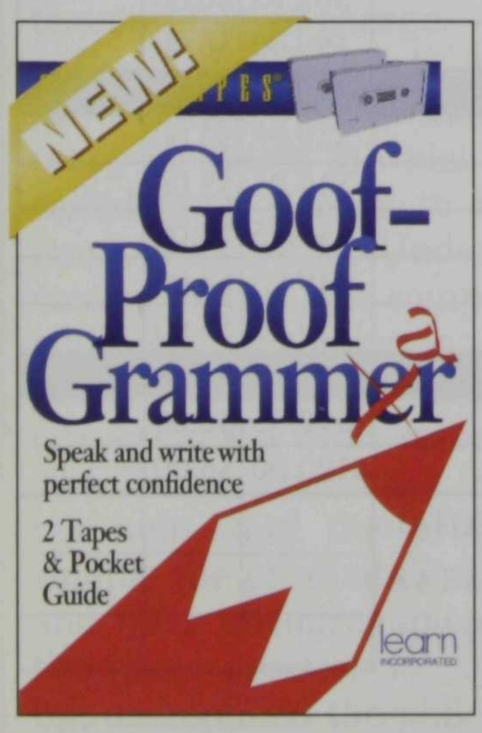
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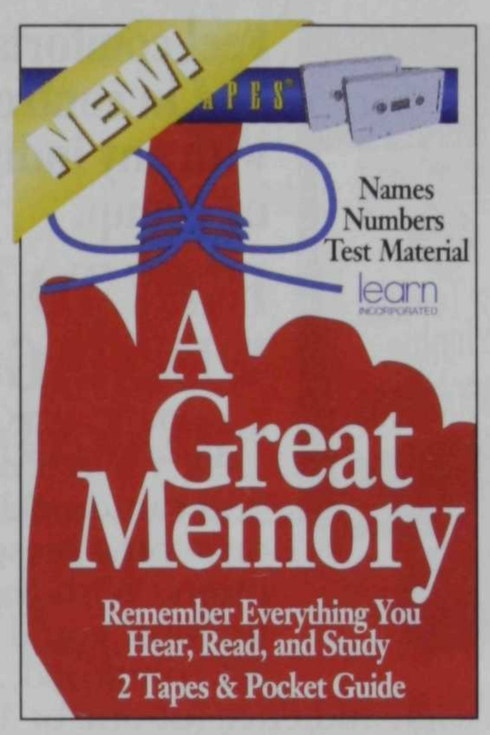
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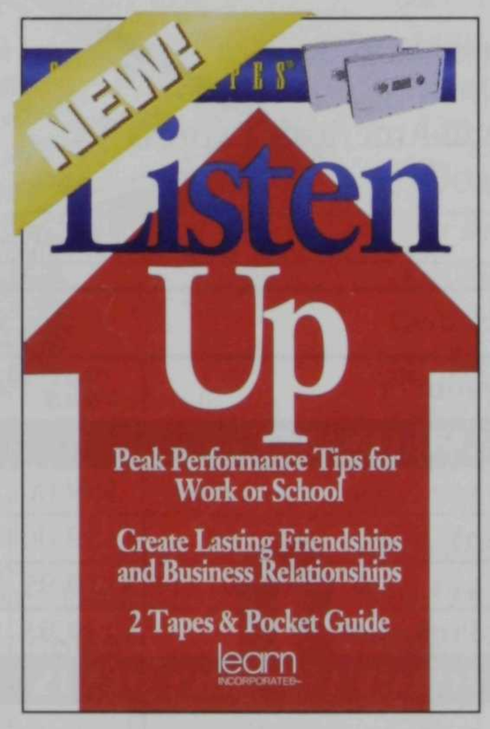
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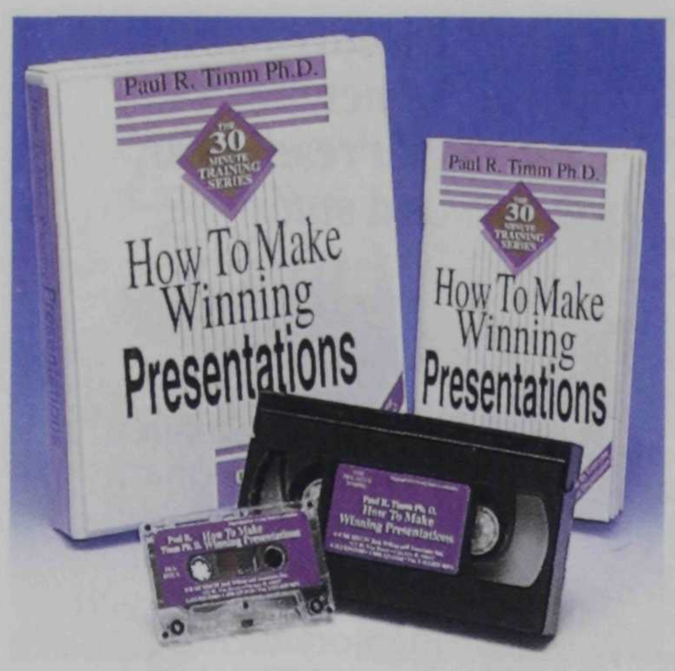
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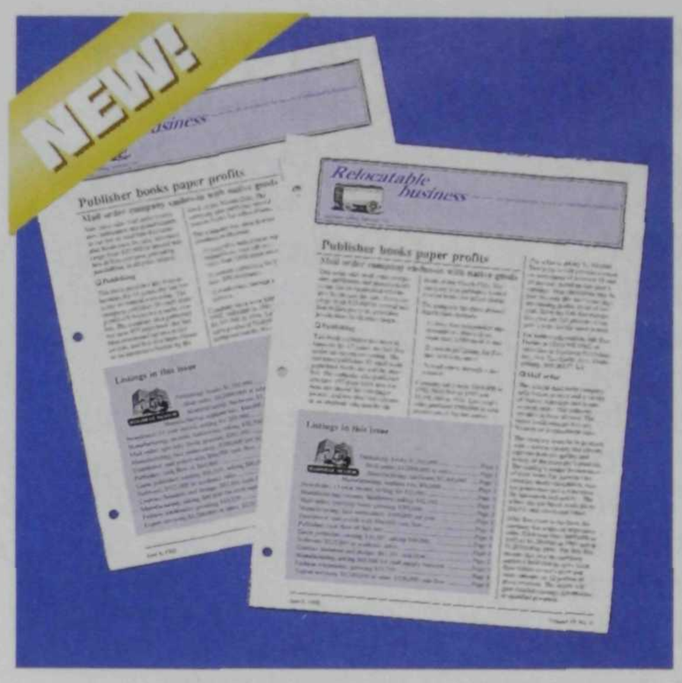
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WORK FORCE

Grads For Hire, Warranty Included

Some colleges now pledge to provide touch-up instruction for former students if employers request it.

By Carolyn Magnuson

Thomas King, an assistant professor of education at Doane College, in Crete, Neb., remembers the call for help he received from a former student a couple of years ago. It was the 22-year-old woman's first year in a teaching job. She was not sure that her classroom approach was working, and she had lost confidence in herself.

The next morning, King drove three hours across Nebraska to the town where the woman was employed. He watched her at work and made some observations and suggestions. Later, back on campus, he spent several more hours coaching her by telephone.

King made two more trips to be sure the woman had gained confidence that her presentation skills were effective. The professor's time and travel cost the woman and her employer nothing, and she remained on the job.

Why would a college professor go to such lengths to ensure that a graduate could do the work she was hired to do? It is one way that Doane College carries out its warranty program.

Doane, like a growing number of colleges across the country, promises employers that the school will stand behind its graduates. If a student cannot perform the job he or she was hired to do, the college will give the student additional training free of charge.

Because such college-issued warranties are relatively new, there haven't been many instances in which companies have called upon schools to brush up a new employee's skills. Under a typical warranty program, the company requests the additional schooling and the graduate returns to campus—usually in the same city—to get it while remaining on the job. The Doane graduate's initiative in seeking help—and the professor's trips to sample the graduate's classroom manner and offer encouragement—went beyond the usual practice in college warranties but exemplified the philosophy.

Carolyn Magnuson is a free-lance writer in Waltham, Mass.

Depending on the terms of the college's warranty, the institution may offer a former student refresher work in a field outside the graduate's major. For instance, if an employer thinks a newly hired accountant could use help with communication skills, the college may provide free additional training in that area.

The score or more of schools that offer graduate warranties range from Fitchburg State College in Massachusetts and Doane in Nebraska to 15 of the state colleges in Oklahoma. The Oklahoma State Regents for Higher Education recently adopted a warranty program that is already in place at certain technical schools and takes effect later at state colleges offering degrees in nontechnical fields and professions.



ILLUSTRATION: MICHAEL ROOK

The Milwaukee School of Engineering has a warranty that's part of its broader guarantee to incoming students: that they can complete their course of studies in four years if they stay on track and don't change majors. Then, employers are promised—under the warranty program—that the graduate will be fit for the job.

The school's warranty program "is a great idea," says Jodie Glore, president of Milwaukee-based Rockwell Automation, a 3,500-employee division of Rockwell International that manufactures industrial sensors and controls. He says the school's program "shows how committed the institution is to ensuring the quality of its graduates."

Hermann Viets, the school's president, sees the warranty as part of the unwritten contract between the school and the businesses that hire its graduates. "Our intent is not re-education, but fulfilling our obligations under the contract," Viets says.

The Milwaukee School of Engineering, which has 3,000 graduate and undergraduate students, lets former students come back for refresher instruction up to three years after graduation. In the year since the program was instituted, two graduates have returned for additional course work in their fields. The school's warranty can be exercised not only in technical studies but also in subjects such as literature.

Business owners generally say that although a warranty may get their attention, it probably would not be a major factor in deciding whether to hire a graduate. "It may be a slight plus factor" if all other things were equal, says the principal whose first-year teacher received long-distance attention by Doane College.

Rockwell Automation's Glore also says the warranty probably would not sway a hiring decision but could strengthen a relationship between his company and a particular college.

One reason that schools report few requests for touch-up of graduates' skills under warranty programs appears to be the newness of the concept. Another factor could be geography. Under most warranty programs, graduates must take the free courses at the school. But Doane College, in Nebraska, has not set limits on reaching out to graduates. "If we have a serious problem and it's in Houston," says Professor King, "if we need to get down there, we'll get down there."

So far, paying the costs of educational touch-ups under warranty programs has not caused institutions to establish special budgets, educators say. In fact, they typically maintain that their warranty offers reflect their belief that they will seldom if ever have to provide such remedial efforts. "We don't expect to be swamped," says Viets of the Milwaukee School of Engineering. "We do a good job the first time around." NB

Where I Stand



On Congress

Background: This fall, voters will choose among candidates to fill 33 Senate seats and all 435 U.S. House seats. Republicans will try to hold on to the majorities in both houses that they won in 1994, the first time in 40 years they captured control of both the Senate and the House.

As members of Congress rush to complete their election-year work and get to the campaign trail, much of the Capitol Hill agenda remains incomplete, including many issues important to small business. The following questions seek your views on how well you think the lawmakers have done during the 104th Congress.

Results of this poll will be forwarded to administration officials and congressional leaders. Send the attached, postage-paid Reader Response Card. Or circle your answers below and fax this page to (202) 463-5636.

1 **Do you think this Congress has worked hard enough on issues important to you and your company?**

1. Yes
2. No

2 **Has this Congress been heading in the right direction in pushing to reduce federal spending and eliminate the deficit?**

1. Yes
2. No

3 **Who was more to blame for the delays in agreeing to the 1996 budget and spending plans?**

1. President Clinton
2. Congress

4 **Do you feel this Congress has been extreme in its policies, or has it addressed issues in a fair manner?**

1. Extreme
2. Fair

5 **Does your representative deserve to be re-elected to the House?**

1. Yes
2. No
3. Not running

6 **Which party would you like to see control the next Congress?**

1. Democrats
2. Republicans

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POLL RESULTS

Readers' Views On Regulations

Most respondents to a *Nation's Business* poll said they believe the regulatory climate is unchanged or worse since a 1993 presidential executive order calling for improvements by federal agencies in drawing up and enforcing rules.

About two-thirds of all who responded to the Where I Stand poll in the April issue said that despite President Clinton's call for more-cost-effective rules and more-flexible methods of compliance, there has either been no change in how federal agencies handle rule making or the situation has worsened.

Fewer than one-third of respondents to the poll said they think the regulatory climate has improved as a result of the order.

About one-fourth said things have grown worse since the order was issued Sept. 30, 1993.

Here are the complete results of the poll, in which readers were asked their views on how the situation has changed after specific directives contained in the presidential order.

REGULATIONS

President's Order:

Determine whether the proposed new regulation is required because of problems created wholly or in part by existing regulations or laws.

Better . . . . . 22% No change 50%
Worse 28

President's Order:

Consider alternatives to direct regulation, including market-based, economic incentives aimed at achieving the desired result.

Better . . . . . 26% No change 45%
Worse 29

President's Order:

Where practicable, specify the desired result of a rule, rather than specific actions a business or unit of government must take to achieve it.

Better . . . . . 26% No change 46%
Worse 28

President's Order:

Ensure that the regulation imposes the least possible burden on individuals, businesses, small communities, and governments, and consider the costs of cumulative regulation.

Better . . . . . 29% No change 37%
Worse 34

President's Order:

Write the regulation in simple and easy-to-understand language to minimize uncertainties and lawsuits.

Better . . . . . 32% No change 45%
Worse 23

President's Order:

Assess both the costs and the benefits of the proposed regulation.

Better . . . . . 28% No change 46%
Worse 26

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Editorial

The AFL-CIO's Out-Of-Touch Campaign

They favor meaningful welfare reform that would include a work requirement and a time limit on payments. They want tax cuts and a U.S. constitutional amendment requiring a balanced budget.

That description obviously fits the Republican members who took control of the U.S. House of Representatives last year with a clear-cut mandate to reverse the long, leftward drift of the federal government.

A new poll shows, however, that those views are also held by an overwhelming majority of rank-and-file members of labor unions, only 18 percent of whom now describe themselves as liberal.

What is the response of the AFL-CIO leadership to the wishes of their members on these critical policy issues? They are forcing those workers to finance—unknowingly, in most instances—an all-out campaign to defeat House members backing the very positions the union rank and file supports.

How could such a situation come about in a movement that claims to operate on democratic principles?

It begins with the basic mistake being made by the new president of the AFL-CIO, John J. Sweeney. He believes that the long decline in organized labor's membership and political clout can be reversed by aggressive political action on behalf of congressional candidates backing the labor agenda and through intensified recruitment efforts.

Rather than recognizing the workplace changes—including technology and worker attitudes—that have sent union membership plummeting, Sweeney is, in effect, trying to re-create the past, one in which unions could determine the outcome of elections in many districts. To further its political goals, the organization has committed $35 million to an effort to defeat 75 Republican members of Congress who are considered roadblocks to the AFL-CIO's agenda. Its planners view the campaign as critical to the future of their movement.

But how do the grass-roots union members who are financing that effort through mandatory payments feel about it? For openers, 58 percent of them did not even know about the campaign. A survey by the Luntz Research Companies on behalf of Americans for a Balanced Budget also showed that 62 percent opposed the political endeavor.

In the face of the all-out, highly expensive drive by their leaders to influence the 1996 elections, only 4 percent of the union members polled said political action should be their unions' top responsibility.

And in findings that should give Sweeney pause (but probably won't), the survey spotlighted the overwhelming support of his rank and file for the policies advocated by representatives whom the AFL-CIO has targeted for defeat.

While the findings about individual union members' views reveal the highly vulnerable underside of the AFL-CIO campaign, they certainly do not suggest that business can ease its opposition to organized labor's political assault. Individual business people should continue aggressive support for their candidates.

The labor leaders may not have their members with them in this fight, but they do have their $35 million. And that's a considerable resource by any measure. NB

Union Members Oppose Political Slush Fund

(Rank-and-file reaction to the AFL-CIO's spending $35 million of their dues payments to oppose GOP congressional candidates.)

Strongly/Somewhat Support	31%
Strongly/Somewhat Oppose	62%

Union Members' Top Priorities

Job Security	59%
Wages/Benefits	27
Unions' Image	8
Political Action	4
Other	1

Where Union Members Stand On Key Issues

	Strongly/ Somewhat Support	Strongly/ Somewhat Oppose
Tough Welfare Reform	87%	7%
Balanced-Budget Amendment To The U.S. Constitution	82	11
Tax Relief	78	13

SOURCE: SURVEY BY THE LUNTZ RESEARCH COMPANIES, APRIL 23-28, 1996
Margin of error is plus or minus 3.1 percent. Percentages reflecting "don't know" or no response are not shown.



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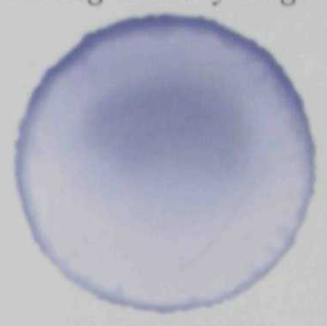
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Standard driver airbag. *Dodge is the only full line truck manufacturer to put a standard driver airbag in every single truck it builds. So of course, Dodge Ram Van comes with one.*

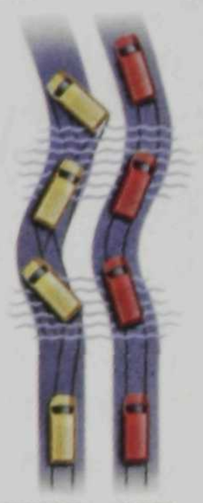




Standard anti-lock brakes. *To help you get to work safely, Ram Vans feature standard rear-wheel or available four-wheel anti-lock brakes.*

We stand behind our work. *Ram Van is backed by our Customer One Care™ 3-year or 36,000-mile bumper-to-bumper warranty and 3/36 Roadside Assistance. There's a 7-year/100,000-mile outer body rust-through warranty, too.**

Solid value. *Your Dodge dealer offers a Ram Van Tradesman Package that includes many of the options you look for in a work van. For the name of your nearest dealer, or for information on commercial buyer incentives, call 1-800-WORK RAM.*



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The Business Advocate

SUPPLEMENT TO Nation's Business JUNE 1996

Published By
U.S. Chamber of Commerce

Workplace Changes Urged



Edwin Lupberger, center, the U.S. Chamber's chairman for 1996-97, urged business people at a conference on the 21st century workplace to become more involved in the education and training of current and future workers. Also participating in the conference were Jill Kanin-Lovers, IBM Corp.'s vice president for human resources, and Jeffrey H. Joseph, the Chamber's vice president for domestic policy.

Updating federal labor laws and increasing business's involvement in educating and training future employees is absolutely essential to tapping the full potential of the work force and the workplace in America in the 21st century, said business executives and lawmakers at a recent teleconference focusing on the future.

The May 1 teleconference was the first of what is expected to be a series of national dialogues hosted by the Chamber on workplace issues.

The event was hosted by the business federation and the National Policy Forum, a conservative education and research organization in Washington. The event was broadcast by satellite from the Chamber's Washington headquarters to more than 60 downlink sites across the country.

"The future of this country depends on the

Continued on Page 2A

Chamber Criticizes Liability-Bill Veto

The U.S. Chamber of Commerce strongly criticized President Clinton's May 2 veto of product-liability legislation, saying the president bowed to election-year pressure from one of his largest campaign contributors, the nation's trial lawyers.

The legislation would have replaced the patchwork of 50 state liability laws with a single federal law, a goal the Chamber has been pursuing for more than 12 years.

In vetoing the bill, Clinton said that the measure would limit Americans' ability to bring product-liability lawsuits and that he objected to the bill's caps on punitive damages.

Continued on Page 2A

■ New Initiative

Chamber Seeks Better Workplace

Continued from Page 1A

quality of our work force," said Chamber President Richard L. Lesher, who opened the event. The Chamber is helping to forge a coalition of companies, business groups, and other organizations to develop a national agenda for improving the quality of the future work force, said Lesher. The coalition is called the Center on the 21st Century Workplace.

In addition to identifying workplace challenges and solutions, the coalition will seek to counter organized labor's efforts to unseat 75 pro-business federal lawmakers. The AFL-CIO has pledged to spend $35 million to defeat the targeted legislators. All 75 voted with the Chamber at least 80 percent of the time on issues selected by the business federation for its "1995 How They Voted" ratings.

Three members of Congress who participated in the May 1 conference were Rep. William F. Goodling, R-Pa., chairman of the House Economic and Educational Opportunities Committee; Rep. Peter Hoekstra, R-Mich., chairman of the Economic and Educational Opportunities Subcommittee on Oversight and Investigations; and Sen. John Ashcroft, R-Mo., a member of the Senate Labor and Human Resources Committee.



Rep. William F. Goodling, R-Pa., says current labor laws are "rooted in the past."



Former Labor Secretary William Brock calls for reforms in the education system.

They agreed that outdated U.S. labor laws are not conducive to fostering workplaces in which employees have a voice in day-to-day business operations and on company policies on issues affecting them, such as benefits and workplace health and safety.

Of particular concern, they noted, are provisions of the National Labor Relations Act and the Fair Labor Standards Act, both of which became law in the 1930s. A section of the NLRA, for example, prohibits nonunion employers from establishing self-directed employee teams to address various workplace issues that are important to both employees and managers.

Lawmakers should pass legislation amending the NLRA to allow the use of employee teams, said an array of panelists. They were Mike Losey, president of the Society for Human Resource Management, in Washington; Dorothy Strunk, a consultant for United Parcel Service, based in Atlanta; Chris Fuldner, president of St. Louis window manufacturer EFCO Corp.; labor attorney Rod DeArment of the Washington law firm Covington & Burling; Donna Gooch, director of human resources for Sunsoft Corp., a Phoenix contact-lens maker; and Jill Kanin-Lovers, vice president for human resources for IBM Corp., based in Armonk, N.Y.

The House already has approved such a measure, the Teamwork for Employees and Management (TEAM) Act. A similar bill was approved by the Senate Labor and Human Resources Committee recently and is awaiting a vote by the full Senate. (See the story on Page 14A.)

Other participants in the conference called on business to become more involved in education of current and future workers. Among them were William Brock, a former U.S. senator and U.S. secretary of labor; Edwin Lupberger, 1996-97 chairman of the U.S. Chamber and chairman and president of Entergy Corp., a New Orleans-based electric utility firm; and Harry Zachem, senior vice president of Ashland Corp., an oil refiner based in Russell, Ky.

Lupberger said that business must let schools know what skills and training are needed in the workplace. "There is a new sense of urgency today and a realization that ensuring that we have a work force prepared for the 21st century will take energy and strategies we haven't tapped into before," he said.

Moreover, he noted, "the driving force behind change must emanate from the local level—community by community."

For more information about the Center on the 21st Century Workplace, call (202) 463-5500.

■ Overtime Pay



Jeffrey H. Joseph, vice president/domestic policy for the U.S. Chamber, voices the business federation's support for a bill sponsored by Sens. John Ashcroft, R-Mo., and Kay Bailey Hutchison, R-Texas, that would allow workers to receive paid time off in lieu of overtime pay. Joseph made his remarks at a media briefing on Capitol Hill.

■ Issues

Liability Veto Raises Chamber's Ire

Continued from Page 1A

"This is a defining issue for Clinton," said R. Bruce Josten, the Chamber's senior vice president for membership policy. "It shows that he is more interested in his campaign contributors—a few thousand trial lawyers—than in the American people.

"This legislation, which passed with bipartisan majorities in both houses of Congress, would have restored some balance for small businesses faced with frivolous lawsuits in an out-of-control legal system," Josten said.



R. Bruce Josten, right, the U.S. Chamber's senior vice president for membership policy, confers with Sens. John Ashcroft, R-Mo., center, and Bill Frist, R-Tenn., before a press conference to urge President Clinton to sign the product-liability bill, which had passed the House and Senate with bipartisan support. Clinton vetoed the bill May 2.

The Chamber mounted an aggressive advertising campaign urging Clinton to approve the product-liability bill and had asked its 220,000 members to contact the White House to voice their support for the legislation.

The presidential veto came more than a year after the House first approved a comprehensive legal-reform bill that contained provisions to limit civil litigation, including product-liability and medical-malpractice suits. The House voted 265-161 on March 10, 1995, to approve the measure. The Senate passed a narrower bill May 10, 1995, by a 61-37 vote.

A House-Senate compromise bill was finally crafted in late March 1996 and was approved on votes of 59-40 in the Senate on March 21 and 259-158 in the House on March 29. Congress sent the bill to the president April 30; Clinton vetoed it May 2.

In establishing a uniform law, the legislation among other things would have:

■ Limited the liability of retailers and wholesalers for the sale of defective products.

■ Restricted damage awards when a victim used a product in a way that was expressly warned against—or that the average person should have known would cause harm.

■ Limited punitive damages—those beyond the amount awarded to compensate victims for lost wages, medical costs, and pain and suffering—to the greater of $250,000 or two times the amount of compensatory damages.

For companies with fewer than 25 employees and for individuals with a net worth of $500,000 or less, the cap on punitive damages would have been the lesser of $250,000 or two times the compensatory damages.

■ Placed a two-year statute of limitations on bringing a product-liability suit starting at the time the victim discovered or should have discovered the injury. However, no product-liability suit could have been considered more than 15 years after the product was first delivered to a purchaser.

■ Limited, for each defendant, the liability for noneconomic damages—pain and suffering—to the percentage of responsibility for harm to a victim assigned to each defendant.

■ Legislation

Chamber Urges Health-Care Action

The U.S. Chamber of Commerce is urging a House-Senate conference committee working on health-care legislation to reject a mental-health-care mandate.

The mandate, included in the Senate version of the measure, would require that health plans cover serious mental illnesses to the same degree as other illnesses.

The requirement would raise insurance premiums by 8 to 11 percent, making plans unaffordable for most small businesses, says Neil Trautwein, the Chamber's manager of health-care policy.

At a Capitol Hill press conference May 7, Jeffrey H. Joseph, Chamber vice president for domestic policy, urged conferees to reject the mental-health provision.

The Chamber does support, however, changes to the nation's health-care system that are included in both the House and Senate bills.



Both the House measure, approved March 28 on a 267-151 vote, and the Senate bill, passed 100-0 on April 23, would allow workers to carry their health insurance from job to job and would limit the use of pre-existing-condition exclusions by insurers to deny coverage to people with health problems.

The bills also would increase the health-insurance tax deduction for the self-employed and unincorporated businesses from the current 30 percent. The House measure would increase the deduction in stages to 50 percent in 2003, and the Senate bill would raise it gradually to 80 percent in 2006.

In addition to the mental-health issue, the conference panel must reconcile other contentious differences between the House- and Senate-passed bills.

One, included in the House bill and supported by the Chamber, would pre-empt state benefit laws for groups of small firms. The pre-emption would allow them to purchase health insurance free of state mandates. Another issue to be resolved is compensatory damages—awards for pain and suffering—in medical-malpractice lawsuits. The House bill calls for a cap of $250,000, which the Chamber supports; the Senate measure does not address medical malpractice.

Taxes

Rights Bill Advances



Taxpayers would gain more rights when dealing with the IRS under a bill awaiting Senate action.

Legislation that would expand the rights of taxpayers in dealing with the Internal Revenue Service is high on the U.S. Chamber of Commerce's list of priorities.

The House passed the so-called Taxpayer Bill of Rights II on a vote of 425-0 on April 16, and the Chamber is now urging the Senate to pass it quickly.

Among other provisions, the bill would:

- Establish a taxpayer-advocate office within the IRS to help resolve disputes between taxpayers and the agency.
- Increase to $1 million from $100,000 the maximum amount a taxpayer could collect in damages from the IRS when a court has determined that the agency has recklessly or intentionally disregarded laws or regulations in dealing with the taxpayer.
- Allow taxpayers who prevail in disputes with the IRS to recover attorneys' fees and other court costs unless the agency can prove that its position was "substantially justified." To recover such costs under current law, the burden is on the taxpayer to prove that the IRS's position is "not substantially justified."
- Require the IRS to notify a taxpayer 30 days in advance of changing or terminating an installment agreement between the agency and the taxpayer on the payment of late taxes.
- Require the agency to give "sufficient" public notice of proposed rules.
- Require the IRS to submit annual reports to the Senate Finance and House Ways and Means committees on all cases involving allegations of misconduct by IRS employees.

The measure is an extension of a taxpayer bill of rights provision attached to tax-legislation corrections enacted in late 1988. The 1988 measure required the IRS to establish a process for taxpayers to appeal tax assessments and liens placed on their property by the agency.

It also required the IRS to explain to taxpayers their rights before conducting audits or collection interviews, to cancel any tax penalty or additional tax that results because of erroneous written advice furnished by the agency, and to itemize in its delinquency notices the taxes, interest, and penalties due and the basis for each.

President Clinton has indicated support for the measure and is expected to sign the bill into law once the Senate approves it.

Transportation

Chamber: Take Trust Funds Off Budget

The U.S. Chamber of Commerce is urging the Senate to follow the lead of the House and approve legislation to keep federal transportation trust funds from being used to reduce the apparent size of the budget deficit.

The business federation is asking its members to contact their senators and urge them to support a bill that would prohibit the use of amounts in the trust funds to offset the budget deficit.

The trust funds involved are those for highways, airports and airways, inland waterways, and harbor maintenance. The legislation, S. 729, is sponsored by Senate Majority Whip Trent Lott, R-Miss., and Sen. Max Baucus, D-Mont. An identical measure sponsored by House Transportation and Infrastructure Committee Chairman Bud Shuster, R-Pa., passed the House April 17 on a 284-143 vote.

When Congress established the transportation trust funds, lawmakers had an explicit goal in mind—to finance transportation improvements.

The trust funds collect more than $30 billion annually from taxes on motor fuels, an airline facility charge commonly known as the ticket tax, and aviation and waterways fuel and cargo excise taxes. The ticket tax expired recently and has not been reinstated. Although some money has been spent for improvements, Congress has refused to use all of the money in the trust funds despite the widespread need for infrastructure repairs.

The funds have consequently accumulated surpluses, which have been used on paper to decrease the size of the budget deficit. Removing the funds from the budget, the Chamber says, would help address the need for more than $450 billion in infrastructure work deemed important by the U.S. Transportation Department.



The Chamber is supporting legislation that would prohibit the use of the transportation trust funds, including one for maintaining the nation's airports, to offset the federal budget deficit.

The timing of possible action on the Senate bill to take the trust funds off budget is uncertain. The chairmen of the two committees that have jurisdiction over the measure—Sen. John H. Chafee, R-R.I., of the Environment and Public Works Committee, and Sen. Pete Domenici, R-N.M., of the Budget Committee—oppose the legislation. They contend that taking the trust funds off budget would make it harder to deal with the deficit.

Call your senators and urge them to co-sponsor the Lott-Baucus bill, and ask them to put pressure on Sens. Chafee and Domenici to allow votes on the measure in their respective committees. Senators may be reached at (202) 224-3121.

■ Testimony

Merge Trade Aid, Chamber Tells Panel

The U.S. Chamber of Commerce is calling for a consolidation of U.S. international trade functions.

Willard A. Workman, Chamber vice president/international, told a Senate Foreign Relations subcommittee that the need to eliminate duplicate trade-related functions is growing as more attention is paid to the challenge of balancing the federal budget.

The government's international commerce and trade functions are administered or supported by more than 14 agencies that are "driven by often-conflicting policy objectives" that are "without singularly focused budget discipline," Workman said.

He noted that U.S. trade programs currently cost $3.5 billion a year.

Workman made his remarks in mid-April before the Senate Foreign Relations Subcommittee on International Economic Policy, Export and Trade Promotion. The purpose of the subcommittee hearing was to examine the impact of balancing the federal budget on the international business environment.

Workman said that balancing the budget in seven years without raising taxes remains the U.S. Chamber's top legislative priority. But, he added, the U.S. national interest "requires the attainment of a level playing field for the commercial interests of the United States in global markets."

He pointed out that most of America's major trading partners receive financial and other trade assistance from their governments—and will continue to receive such aid regardless of whether the U.S. budget is balanced.

"Therefore, the U.S. government is faced with the challenge of simultaneously balancing its budget and ... reconfiguring its international trade functions to consolidate duplicate functions," said Workman.

He told the panel that a comprehensive examination of restructuring and reorganizing the U.S. international commerce and trade functions should be undertaken. In addition, he said, within a specific time frame, recommendations should be made on how to ensure the enhanced effectiveness of U.S. trade functions critical to American competitiveness while also helping to balance the federal budget.



Willard A. Workman, the U.S. Chamber's vice president/international, testifies before a Senate panel on merging U.S. international trade functions.

■ Business Agenda

Survey Asks Priorities Of Members

Members of the U.S. Chamber of Commerce will have an opportunity soon to help shape the organization's legislative agenda for 1997-98.

The business federation will be surveying its 220,000 members on the issues most important to business. The survey will be contained in the polybag with the July issues of *The Business Advocate* and *Nation's Business*.

Accompanying the questionnaire will be background information on legislation likely to be considered during the 105th Congress, which will convene in January.

Chamber members are urged to complete the survey and return it by July 25.

Results of the survey will be discussed during a Sept. 12 town meeting broadcast by satellite from the Chamber's headquarters in Washington, D.C.

"The town meeting and the survey give U.S. Chamber members the opportunity to help write the business agenda for 1997-98, which will be conveyed to members of the new 105th Congress and to the White House," says R. Bruce Josten, the Chamber's senior vice president for membership policy. "Strong participation is critical to ensuring that the business agenda is grass-roots-driven."

■ Politics

Political pollster Ed Goeas, who recently spoke at a meeting of the Industrial Energy Users Forum at the U.S. Chamber, predicted that Republicans would gain four or five seats in the Senate and from eight to 12 seats in the House in the November elections.



Exchanging Views

Candidate Sessions



Rep. Andrea Seastrand, R-Calif., was among the 1996 candidates invited to listen to the concerns of business executives.



In the photo above, Arkansas Lt. Gov. Mike Huckabee, right, who is running for the U.S. Senate seat of retiring Arkansas Democrat Sen. David Pryor, talks with, left to right, Charlotte Herbert and Elizabeth Littlejohn of the Associated Builders and Contractors organization and Doug Loon, the U.S. Chamber's director of congressional affairs, at a "meet and greet" event at the Chamber. The events allow business executives to talk with candidates running for Congress about their positions on public-policy issues.



Rep. Fred Heineman, R-N.C., right, and Rep. George P. Radanovich, R-Calif., discuss policy issues during a "meet and greet" session at the Chamber. Heineman and Radanovich are running for re-election.



Joe Rogers, who is running for the House seat of retiring Rep. Patricia Schroeder, D-Colo., talks about his campaign.



At right, Vince Snowberger, left, who is running for the House seat being vacated by Rep. Jan Meyers, R-Kan., talks with the Chamber's Doug Loon, center, and Ronald Graf of the Hershey Foods Corp.

Business Action

Election Participation Is Critical

Business participation in November's presidential and congressional elections is as important as ever, according to the U.S. Chamber of Commerce.

The Chamber is encouraging business people to register to vote and to cast their ballots on Nov. 5. Employers are also being asked to encourage their employees—through such means as reminders about Election Day—to vote.

As part of its get-out-the-vote campaign, titled "Register, Vote, Make a Difference for Business," the Chamber is providing its members with envelope stuffers and camera-ready artwork to remind employees to register and to vote. The materials are being provided at cost, plus shipping and handling.

The Chamber will undertake other activities between now and Election Day to encourage participation in the electoral process. These activities will include putting voting reminders in materials it sends to members and in its publications.

The importance of business voting is reflected in results of the 1994 elections. In more than 50 races that year, the margin of victory was no more than 5 percent. Several contests were decided by less than 1,000 votes apiece out of tens of thousands cast.

This year's elections are particularly important also because the AFL-CIO is waging a campaign to defeat 75 pro-business lawmakers. The unions have pledged to spend $35 million in the effort.

At the federal level, voters will determine who will be president and who will fill 33 Senate and 435 House seats.

"It's in every businessperson's self-interest to vote and to vote for the candidates who will support pro-growth, pro-free-enterprise policies," says R. Bruce Josten, the Chamber's senior vice president for membership policy. "So, I urge every businessperson—and his or her employees—to register, vote, and make a difference for business."

To order envelope stuffers and other materials that remind people to register and to vote, call 1-800-638-6582. In Maryland, call 1-800-352-1450.

GAIN UPDATE
GRASSROOTS ACTION INFORMATION NETWORK
U.S. Chamber of Commerce Federation

Effort To Update Clean Water Act Is Stalled In The Senate

Chamber Continues To Urge Committee Action, Provides Educational Materials

Almost a year after the beginning of the debate about how to modernize the Clean Water Act, congressional efforts to revise the law are bogged down in election-year politics.

Last May the House passed comprehensive legislation (H.R. 961) to reauthorize and update the Clean Water Act. The bill was approved by a strong bipartisan vote of 240-185 and was supported broadly by state and local government officials, agricultural interests, and other groups, including the U.S. Chamber of Commerce.



The Chamber strongly supports the House legislation because it would provide state and local governments more flexibility, incentives, and decision-making authority to reach clean-water goals. It also would provide governments and those regulated by the law with practical, common-sense tools to make the clean-water program more effective and efficient. More specifically, the bill would:

- Promote pollution prevention and development of innovative technologies.
- Require the Environmental Protection Agency (EPA) to apply good science, cost-benefit analysis, and risk assessments before issuing rules and regulations.
- Establish a new management framework for dealing with nonpoint sources of pollution, such as agriculture and storm-water runoff.

No bill has been introduced in the Senate, but Environment and Public Works Committee Chairman John H. Chafee, R-R.I., has stated that any legislation would address narrower issues than the House bill does. This "limited" set of issues could include storm water, sewer overflows, wetlands, and pollution prevention.

The committee is expected to hold hearings this year, but further action is complicated by the current political atmosphere and an abbreviated election-year congressional schedule. The Senate has been reluctant to act on clean-water legislation in part because of the contentiousness of the debate and also because of disagreements on the scope of reform and details in the proposals. In describing the debate, Charles Ingram, senior associate manager for environmental policy of the Chamber, explains: "Water-quality issues are often complex and technical, but public perceptions about water quality are simple. Understandably, public emotions run high because no one wants 'dirty water.'"

This perception, however, "has obscured the fact that there is considerable consensus about the need to improve our approach to water-quality protection," Ingram says. "The issue is not whether we protect the environment but how best to protect it—how to make the law more effective, efficient, and flexible to meet current and future water-quality challenges."

Congressional proposals to update the Clean Water Act have been harshly and repeatedly criticized by the Clinton administration and environmental groups. They are satisfied with the "command and control" approach of the status quo and believe the only way to protect the environment is by having a centralized, Washington-based system, says the Chamber's Ingram. "They distrust state and local officials' ability to protect water resources and characterize any change as 'gutting' or 'rolling back' environmental protections."

If legislation ultimately does pass the Senate, Congress would face other difficult challenges. The limited scope of a Senate bill would hinder reconciliation with the broad-based House bill. In addition, President Clinton has vowed to veto any measure that resembles the House bill.

"The Chamber will continue to push for action in the Senate," says Ingram. "We believe we can do a better job of managing our water resources if sensible updates can be made to the Clean Water Act that will give state and local governments, the EPA, and the regulated community more flexibility to do a better job."

The Chamber-led Clean Water Industry Coalition has prepared a clean-water information package to explain why the law needs to be updated and how modernization would safeguard water-quality gains made to date.

For an information packet, call Charles Ingram at (202) 463-5627 or fax your request to him at (202) 887-3445.

How You Can Join GAIN

The Grassroots Action Information Network—GAIN—enhances the ability of business people to influence government decisions that affect their enterprises. Through the network, U.S. Chamber specialists on legislative and regulatory issues provide activist business people with the timely and thorough information they need to urge their members of Congress to cast pro-enterprise votes.

For more information on how to become a member of this network, call (202) 463-5604.

Contact Your Lawmaker About Tax-Restraint Vote

A measure to limit Congress' ability to raise taxes fell 37 votes short of passage recently in the House.

The April 15 vote, 243-177, was on a proposed amendment to the Constitution that would have required a two-thirds vote of Congress to increase taxes.

With an eye toward the future, the U.S. Chamber of Commerce is asking each of its members to thank his or her representative if the lawmaker voted for the measure and to hold accountable those legislators who voted against it.

In the Senate, a similar tax-limitation amendment is pending, and the Chamber is asking its members to urge their senators to support it. The Chamber's goal is to get the Senate on record on the matter this year before the organization develops its lobbying strategy for next year.

Like any other proposed constitutional amendment, the tax-limitation measure requires approval by two-thirds of Congress. That means 290 members of the House and 67 senators if all members are present and voting. Once approved by Congress, constitutional amendments require approval by the legislatures of 38 states.

The address for representatives is U.S. House of Representatives, Washington, D.C. 20515. The address for senators is U.S. Senate, Washington, D.C. 20510.



PHOTO: T. MICHAEL KEZA

Sen. John L. Kyl, R-Ariz., is the sponsor of the Senate tax-limitation proposal.

HOUSE

VOTED YES

ALABAMA
1 Callahan
2 Everett
3 Browder
4 Bevill
5 Cramer
6 Bachus

ALASKA
Young

ARIZONA
1 Salmon
3 Stump
4 Shadegg
5 Kolbe
6 Hayworth

ARKANSAS
1 Lincoln
3 Hutchinson
4 Dickey

CALIFORNIA
1 Riggs
2 Herger
4 Doolittle
10 Baker
11 Pombo
18 Condit
19 Radanovich
22 Seastrand
23 Gallegly
25 McKeon
27 Moorhead
28 Dreier
36 Harman
38 Horn
39 Royce
40 Lewis
41 Kim
43 Calvert
44 Bono
45 Rohrabacher
46 Dornan
47 Cox
48 Packard
49 Bilbray
51 Cunningham
52 Hunter

COLORADO
3 McInnis
4 Allard
5 Hefley
6 Schaefer

CONNECTICUT
4 Shays
5 Franks

DELAWARE
Castle

FLORIDA
1 Scarborough
4 Fowler
6 Stearns
7 Mica
8 McCollum
9 Bilirakis
10 Young
12 Canady
13 Miller
14 Goss
15 Weldon
16 Foley
18 Ros-Lehtinen
21 Diaz-Balart
22 Shaw

GEORGIA
1 Kingston
3 Collins
4 Linder
6 Gingrich
7 Barr
8 Chambliss
9 Deal
10 Norwood

IDAHO
1 Chenoweth
2 Crapo

ILLINOIS
5 Flanagan
6 Hyde
8 Crane
11 Weller
13 Fawell
14 Hastert
15 Ewing
16 Manzullo
18 LaHood

INDIANA
2 McIntosh
3 Roemer
4 Souder
5 Buyer
6 Burton
7 Myers

IOWA
2 Nussle
3 Lightfoot
4 Ganske
5 Latham

KANSAS
1 Roberts
2 Brownback

GAIN UPDATE

3 Meyers
4 Tiahrt

KENTUCKY
1 Whitfield
2 Lewis
3 Ward
4 Bunning
5 Rogers

LOUISIANA
1 Livingston
3 Tauzin
5 McCrery
6 Baker
7 Hayes

MAINE
1 Longley

MARYLAND
1 Gilchrest
2 Ehrlich
6 Bartlett

MASSACHUSETTS
3 Blute
6 Torkildsen

MICHIGAN
2 Hoekstra
3 Ehlers
4 Camp
6 Upton
7 Smith
8 Chrysler
11 Knollenberg

MINNESOTA
1 Gutknecht
3 Ramstad

MISSISSIPPI
1 Wicker
3 Montgomery
4 Parker
5 Taylor

MISSOURI
2 Talent
4 Skelton
6 Danner
7 Hancock
8 Emerson

NEBRASKA
2 Christensen
3 Barrett

NEVADA
1 Ensign
2 Vucanovich

NEW HAMPSHIRE
1 Zeliff
2 Bass

NEW JERSEY
1 Andrews
2 LoBiondo
3 Saxton
4 Smith
6 Pallone
7 Franks
8 Martini
11 Frelinghuysen
12 Zimmer

NEW MEXICO
1 Schiff
2 Skeen

NEW YORK
1 Forbes
2 Lazio
3 King
4 Frisa
13 Molinari
19 Kelly
20 Gilman
22 Solomon
24 McHugh
27 Paxon
30 Quinn

NORTH CAROLINA
2 Funderburk
3 Jones
4 Heineman
5 Burr
6 Coble
9 Myrick
10 Ballenger
11 Taylor

OHIO
1 Chabot
2 Portman
4 Oxley
6 Cremeans
7 Hobson
8 Boehner
10 Hoke
12 Kasich
15 Pryce
16 Regula
17 Traficant
18 Ney
19 LaTourette

OKLAHOMA
1 Largent
2 Coburn
4 Watts
5 Istook
6 Lucas

OREGON
2 Cooley
5 Bunn

PENNSYLVANIA
6 Holden
7 Weldon
8 Greenwood
9 Shuster
13 Fox
16 Walker
17 Gekas
18 Doyle
19 Goodling
21 English

SOUTH CAROLINA
1 Sanford
2 Spence
3 Graham
4 Inglis

TENNESSEE
1 Quillen
2 Duncan
3 Wamp
4 Hilleary
6 Gordon
7 Bryant

TEXAS
3 Johnson
4 Hall
6 Barton
7 Archer
8 Fields
9 Stockman
12 Geren
13 Thornberry
14 Laughlin
15 de la Garza
19 Combest
21 Smith
22 DeLay
23 Bonilla
26 Armey
27 Ortiz
28 Tejeda
29 Green

UTAH
1 Hansen
2 Greene

VIRGINIA
6 Goodlatte
7 Bliley
10 Wolf
11 Davis

WASHINGTON
1 White
2 Metcalf
3 Smith
4 Hastings
5 Nethercutt
8 Dunn
9 Tate

WISCONSIN
1 Neumann
2 Klug
6 Petri
8 Roth
9 Sensenbrenner

WYOMING
Cubin

VOTED NO

ALABAMA
7 Hilliard

ARIZONA
2 Pastor

CALIFORNIA
3 Fazio
5 Matsui
6 Woolsey
7 Miller
8 Pelosi
9 Dellums
12 Lantos
13 Stark
14 Eshoo
15 Campbell
16 Lofgren
17 Farr
20 Dooley
21 Thomas
24 Beilenson
26 Berman
29 Waxman
31 Martinez
32 Dixon
33 Roybal-Allard
34 Torres
35 Waters
42 Brown
50 Filner

COLORADO
2 Skaggs

CONNECTICUT
1 Kennelly
2 Gejdenson
3 DeLauro
6 Johnson

FLORIDA
2 Peterson
3 Brown

GAIN UPDATE

5 Thurman
11 Gibbons
17 Meek
19 Johnston
20 Deutsch
23 Hastings

GEORGIA
2 Bishop
5 Lewis
11 McKinney

HAWAII
1 Abercrombie
2 Mink

ILLINOIS
1 Rush
2 Jackson
3 Lipinski
4 Gutierrez
7 Collins
10 Porter
12 Costello
17 Evans
19 Poshard
20 Durbin

INDIANA
1 Visclosky
8 Hostettler
9 Hamilton
10 Jacobs

IOWA
1 Leach

KENTUCKY
6 Baesler

LOUISIANA
2 Jefferson

MAINE
2 Baldacci

MARYLAND
3 Cardin
4 Wynn
5 Hoyer
8 Morella

MASSACHUSETTS
1 Olver
2 Neal
4 Frank
5 Meehan
7 Markey
8 Kennedy
9 Moakley
10 Studds

MICHIGAN
1 Stupak
5 Barcia
9 Kildee
10 Bonior
12 Levin
13 Rivers
14 Conyers
15 Collins
16 Dingell

MINNESOTA
2 Minge
4 Vento
5 Sabo
6 Luther
7 Peterson
8 Oberstar

MISSISSIPPI
2 Thompson

MISSOURI
1 Clay
3 Gephardt
5 McCarthy
9 Volkmer

MONTANA
Williams

NEBRASKA
1 Bereuter

NEW JERSEY
5 Roukema
9 Torricelli
10 Payne
13 Menendez

NEW MEXICO
3 Richardson

NEW YORK
5 Ackerman
7 Manton
8 Nadler
9 Schumer
11 Owens
12 Velazquez
14 Maloney
15 Rangel
16 Serrano
17 Engel
18 Lowey
21 McNulty
23 Boehlert
25 Walsh
26 Hinchey
28 Slaughter
29 LaFalce
31 Houghton

NORTH CAROLINA
1 Clayton
8 Hefner
12 Watt

NORTH DAKOTA
Pomeroy

OHIO
3 Hall
5 Gillmor
9 Kaptur
11 Stokes
13 Brown
14 Sawyer

OKLAHOMA
3 Brewster

OREGON
1 Furse
4 DeFazio

PENNSYLVANIA
1 Foglietta
2 Fattah
3 Borski
4 Klink
5 Clinger
11 Kanjorski
12 Murtha
14 Coyne
15 McHale
20 Mascara

RHODE ISLAND
1 Kennedy
2 Reed

SOUTH CAROLINA
5 Spratt
6 Clyburn

SOUTH DAKOTA
Johnson

TENNESSEE
5 Clement
8 Tanner

TEXAS
5 Bryant
10 Doggett
11 Edwards
16 Coleman
17 Stenholm
18 Jackson Lee
20 Gonzalez
24 Frost
25 Bentsen
30 Johnson

UTAH
3 Orton

VERMONT
Sanders

VIRGINIA
1 Bateman
2 Pickett
3 Scott
4 Sisisky
5 Payne
8 Moran
9 Boucher

WASHINGTON
6 Dicks
7 McDermott

WEST VIRGINIA
1 Mollohan
2 Wise
3 Rahall

WISCONSIN
3 Gunderson
4 Kleczka
5 Barrett
7 Obey

DID NOT VOTE

ARKANSAS
2 Thornton

CALIFORNIA
30 Becerra

COLORADO
1 Schroeder

ILLINOIS
9 Yates

LOUISIANA
4 Fields

NEW YORK
6 Flake
10 Towns

NORTH CAROLINA
7 Rose

PENNSYLVANIA
10 McDade

TENNESSEE
9 Ford

TEXAS
1 Chapman
2 Wilson

■ Poll Results

Economic Confidence Rebounds

Business's confidence in the economy rose in April, according to the U.S. Chamber of Commerce's latest member poll.

Respondents expressed their views through the organization's Business Ballot, which is sent to Chamber members every other month in a polybag with *The Business Advocate* and *Nation's Business*.

The Business Ballot includes three economic-outlook questions, which are the basis of the Chamber's Business Confidence Index. The ballot also asks questions about other timely issues, such as legislation pending in Congress.



The Business Confidence Index increased to 56.2 in April from 53.5 in February. The index has been on a roller-coaster ride since April 1995, when it was 56.6. (See the chart.) It fell to 52.2 in June 1995 and steadily rose to 56.8 in October of that year before plunging again in February 1996.

"Most of the increase in the April index resulted from a drop in the number of respondents who felt that the overall economy would be slowing down in the months ahead," says Robert D. Barr, deputy chief economist for the Chamber. "This perception that the economy is on firmer ground will help keep the current economic expansion going."

In the April poll, 23.5 percent of respondents said they expect the economy to improve over the next six months—up from 22.8 percent in February. Just 25.3 percent of respondents said they expect it to get worse, a big drop from February's 35.3 percent. That was the most pessimistic assessment of the overall economy by ballot respondents since August 1994. In October 1995, 21.7 percent of the respondents expected the economy to worsen.

Respondents remain optimistic about their own firms' outlook, with 44.2 percent saying they expect sales to increase over the next six months. Only 17.7 percent expect sales to decline, while 38.1 percent expect no change. In February's poll, 41.5 percent of those responding said they expected sales to go up, 19.5 percent expected them to go down, and 39 percent did not foresee any change.

Be sure to respond to this month's Business Ballot.

■ Latest Ballot

Business Supports First Steps

An overwhelming majority of respondents to the April Business Ballot poll by the U.S. Chamber of Commerce said they would settle for some progress on three major business concerns as first steps toward more-comprehensive goals.

The issues related to tax cuts, regulatory reforms, and legal reforms.

Nearly 94 percent of respondents said they would back passage of limits on product-liability lawsuits and caps on awards for damages as a first step toward more-comprehensive legal reform. Only 3.6 percent said they would not back such limits, and 2.7 percent were unsure.

Congress passed a narrow product-liability reform bill in late March, but President Clinton vetoed the bill May 2.

More than 87 percent of respondents to the Chamber poll said that if the major tax cuts contained in the Republican budget proposal vetoed last year by Clinton cannot be enacted, they would support reductions in the growth of federal spending and smaller tax cuts. Just under 9 percent said they would not support the reductions in spending growth and more-modest tax cuts under that scenario, and 3.8 percent were unsure.



Rep. David McIntosh, R-Ind., is a leading House proponent of regulatory reform.

The original GOP budget proposal called for decreasing the rate of federal spending growth to achieve savings of $960 billion by the year 2002. It also called for $245 billion in tax cuts, including a reduction in capital-gains taxes.

The Republicans and the president recently agreed on a fiscal 1996 budget that reduces spending by $23 billion. There are no tax cuts in the measure.

When asked by the Chamber whether they would "settle for some regulatory reforms even if they are not as comprehensive as those included in [a] 1995 House-passed bill," 71.5 percent said yes, 17.7 said no, and 10.8 percent were unsure.

Some regulatory-relief measures were recently attached to legislation raising the limit on federal borrowing and were enacted. Those provisions strengthen the Regulatory Flexibility Act of 1980 and empower Congress to review federal regulations before they take effect.

In addition to those measures, a comprehensive regulatory-reform bill passed by the House in 1995 called for regulatory agencies to conduct risk assessments and cost-benefit analyses on federal rules. A similar measure failed to pass the Senate by two votes last year.

■ Supreme Court

NCLC Prevails In Age-Bias Case

The National Chamber Litigation Center, the public-policy law firm of the U.S. Chamber of Commerce, won an important victory for business in an age-discrimination case decided by the U.S. Supreme Court.

In *James O'Connor vs. Consolidated Coin Caterers Corp.*, the litigation center successfully argued that there must be a substantial age difference between a fired worker and his or her replacement to allow a suit to come to trial under the federal Age Discrimination in Employment Act. The NCLC made its argument in a friend-of-the-court brief.



A "substantial" age difference must exist between a dismissed worker and his or her replacement to prove an age-bias violation.

In the case, O'Connor sued Consolidated Coin, a Raleigh, N.C., company that operates vending machines, when the company discharged him after reorganizing its territories. O'Connor, 56, was replaced by a 40-year-old employee.

O'Connor contended in his suit that he was discharged because of his age and that he needed only to prove that he is protected under the ADEA, which covers workers 40 and older, and that he was fired and a younger worker was retained.

The U.S. Court of Appeals for the 4th Circuit, in Richmond, Va., dismissed the suit, ruling that O'Connor had not established a case of discrimination because the worker who replaced him also was protected by the ADEA.

The NCLC urged the Supreme Court not to adopt the appeals court's narrow interpretation of the age-discrimination law, which could have led to suits involving 41-year-olds who have been replaced by 39-year-olds.

The litigation center asked the high court to require that an age-discrimination plaintiff show that he or she was replaced by a "substantially younger" person.

Argued the NCLC: "It is obvious that when a replacement is of equal or greater age than the plaintiff, no inference of illegal intent can be justified. The same is true if the replacement is younger, but only slightly so.

"For these reasons, the Chamber submits that, at a minimum, the age disparity between the plaintiff and the replacement should be sufficiently great to create a reasonable inference that the employer's decision was because of the age of the [replaced] employee."

The Supreme Court adopted the NCLC argument in its 9-0 ruling in the case, which it sent back to the appeals court to decide whether O'Connor had been dismissed because of his age.

■ Management Training

Fall Seminar Schedule Set

Registration is under way for the fall series of management seminars produced by the U.S. Chamber of Commerce and available via satellite at sites nationwide. The series will begin Sept. 17 and will feature such topics as managing time well, working with interactive multimedia, and communicating effectively.

In the meantime, the 1996 spring series will be completed June 5 with a seminar led by motivational speaker and author Les Brown. Titled "Live Your Dreams," that program will air from 6 to 7:30 p.m. Eastern time.

The fall series is the ninth group of seminars produced by the Chamber's Quality Learning Services Department since 1992. Here are the dates, seminar leaders, and subjects for the fall series:



Don Tapscott

Sept. 17—Don Tapscott, chairman of the Alliance of Converging Technologies, a research, education, and consulting company in Toronto; "Competing in the Digital Economy."

Oct. 1—Dianna Booher, author and CEO of Booher Consultants, a communication-training firm in Dallas; "Think on Your Feet: Communicate With Confidence!"

Oct. 8—Deepak Chopra, author of the best-selling *The Seven Spiritual Laws of Success*; "The Seven Spiritual Laws of Success as Applied to Business: A Practical Approach."

Oct. 15—Marc J. Wallace Jr., author and founding partner of the Center for Workforce Effectiveness, a workplace consulting firm in Northbrook, Ill.; "The Virtual Workplace."

Oct. 29—Hyrum W. Smith, chairman and CEO of Franklin Quest Co., a time-management consulting company in Salt Lake City; "Time Management: It Has Nothing To Do With Watching the Clock."

Nov. 12—Knight A. Kiplinger, co-editor of *The Kiplinger Washington Letter* and publisher of *Kiplinger's Personal Finance* magazine; "Kiplinger Forecast: What's Ahead for Business, the Economy and Your Personal Finances."

Nov. 19—Paul and Sarah Edwards, authors; "Finding Your Perfect Work: The New Career Guide to Making a Living and Creating a Life."

Dec. 3—William J. Morin, former chairman and CEO of Drake Beam Morin, Inc., an outplacement/job-transition firm in New York; "Career Alignment: Matching Personal and Organizational Goals."

These seminars will air from 1 to 3 p.m. Eastern time. For information on the seminar site nearest you or to learn how to host a downlink site, call the Chamber's Federation Programs and Services Division at 1-800-835-4730 or (202) 463-5940.

A catalog describing the fall offerings in more detail is available free by calling the same phone numbers. U.S. Chamber members receive a 10 percent discount on the price of the seminars.

■ 'It's Your Business'



Sen. Bill Bradley, D-N.J., second from right, makes a point on the issue of campaign-finance reform during a recent taping of "It's Your Business," the U.S. Chamber's weekly public-affairs television show. Joining the debate were, from left, Chamber President Richard L. Lesher, Sen. Mitch McConnell, R-Ky., show moderator and Chamber Vice President for Communications Development Meryl Comer, and Donald Simon of Common Cause, a political action committee watchdog group.

■ 'First Business'

News Show Reach Expands Again

"First Business," the weekday business news television program of the U.S. Chamber of Commerce, recently expanded its reach to some of America's largest corporations via a business-to-business satellite network.

"First Business" and other business programs carried by the Corporate Community Network are seen at nearly 2,000 downlink sites within more than 75 major U.S. corporations.

The live half-hour of programming on "First Business" focuses on the interests of small-business people. It is broadcast via satellite from the Chamber's headquarters in Washington. The program is a joint production of the Chamber and Massachusetts Mutual Life Insurance Co., now known as MassMutual—The Blue Chip Company.

In addition to airing on the Corporate Community Network, "First Business" is carried by more than 70 stations, several regional cable systems, and Worldnet—the satellite network of the U.S. Information Agency. Check the listing below for the time and station in your area.

CITY	STATION	TIME	AFFILIATE
Albany, Ga.	WGVP-44	6 & 7:30 a.m.	Warner Brothers
Albany-Glens Falls, N.Y.	WNCE-8	6:00 a.m.	Independent
Athens, Ga.	WNGM-34	7 a.m.	Independent
Baltimore	WHSW-24	6:30 a.m.	Independent
Boston	WHSH-66	6:30 a.m.	Independent
Brunswick, Ga.	WBSG-21	7:30 a.m.	Warner Brothers
Butte, Mont.	KTVM-6	6 a.m.	NBC
Casper-Riverton, Wyo.	KTWO-2	4 a.m.	NBC
Cedar City, Utah	KSGI-4	7:30 a.m.	Independent
Cheyenne, Wyo.	KKTU-33	4 a.m.	NBC
Chicago	WJYS-62	6:30 a.m.	Independent
Chico-Redding, Calif.	KDQT-46	6 a.m.	Warner Brothers
Cleveland-Akron	WAKC-23	6 a.m	ABC
Cookeville, Tenn.	WKZX-28	7:30 a.m.	Warner Brothers
Dallas-Fort Worth	KHSX-49	6:30 a.m.	Independent
Denver	KDVR-31	5:30 a.m.	Fox
Fayetteville, N.C.	WFAY-62	7 & 11:30 a.m.	Fox
Fort Smith, Ark.	KFDF-32	7:30 a.m.	United Paramount Network (UPN)
Grand Rapids, Mich.	WXMI-17	5 a.m.	Fox
Greensboro-High Point-Winston-Salem, N.C.	WBFX-20	5:30 a.m.	Warner Brothers
Hagerstown, Md.	WJAL-68	6 a.m.	Warner Brothers
Harrisburg-Lancaster-Lebanon-York, Pa.	WHP-21	6 a.m.	CBS
Hartford, Conn.	WTXX-20	6 a.m.	UPN
Huntsville-Florence, Ala.	WOWL-15	9:30 a.m.	NBC
Indianapolis	WXIN-59	5:30 a.m.	Fox
Jacksonville, Fla.	WTEV-47	6:30 a.m.	UPN
Kalispell, Mont.	KCFW-9	6 a.m.	NBC
Kansas City, Mo.	WDAF-4	4:30 a.m.	Fox
La Crosse-Eau Claire, Wis.	WLAX-25	4:30 a.m.	Fox
Las Vegas	KFBT-33	4:30 a.m.	Warner Brothers
Lexington, Ky.	WKYT-27	5:30 a.m.	CBS
Lima, Ohio	WTLW-44	6 a.m.	Independent
Lincoln, Neb.	KTVG-17	6 a.m.	Fox/UPN
Los Angeles	KHSC-46	6:30 a.m.	Independent

CITY	STATION	TIME	AFFILIATE
Louisville, Ky.	WYCS-24	6:30 a.m.	Independent
Miami	WYHS-69	6:30 a.m.	Independent
Miles City, Mont.	KYUS-3	6:30 a.m.	Independent
Milwaukee	WDJT-58	6 a.m.	CBS
Missoula, Mont.	KECI-13	6 a.m.	NBC
Monroe, La.	KTVE-10	5 a.m.	NBC
Montgomery, Ala.	WAXC-64	7 a.m.	UPN
Nashville, Tenn.	WNAB-58	6 a.m.	Warner Brothers
New York City	WHSE-68	6:30 a.m.	Independent
Norfolk-Hampton, Va.	WPEN-51	8 a.m.	Independent
Orlando-Daytona Beach, Fla.	WKCF-18	5 a.m.	Warner Brothers
Philadelphia	WHSP-65	6:30 a.m.	Independent
Phoenix-Prescott	KUSK-7	5:30 a.m.	Independent
Portland, Ore.	KWBP-32	5:30 a.m.	Warner Brothers
Raleigh-Durham, N.C.	WRAY-30	7 a.m.	Independent
Roanoke-Lynchburg, Va.	WDRG-24	7:30 a.m.	Warner Brothers
St. Croix, Virgin Islands	WSVI-8	11 a.m.	ABC
St. Louis	KTVI-2	5 a.m.	Fox
Salt Lake City	KSL-5	4:30 a.m.	NBC
San Diego	KUSI-51	5:30 a.m.	UPN
San Francisco	KTVU-2	5:30 a.m.	Fox
Savannah, Ga.	WUBI-34	6 a.m.	Warner Brothers
Seattle-Tacoma	KTZZ-22	4:30 a.m.	Warner Brothers
Sherman, Texas. Ada-Ardmore, Okla.	KXII-12	5:30 a.m.	UPN
Tallahassee, Fla.	WTWC-40	6 a.m.	NBC
Tampa-St. Petersburg-Sarasota, Fla.	WBSV-62	5 a.m.	Independent
Tri-Cities, Tenn.-Va.	WEMT-39	5 a.m.	Fox
Tulsa, Okla.	KWHB-47	6 a.m.	Independent
Twin Falls, Idaho	KMVT-11	6 a.m.	CBS
Waco-Temple-Bryan, Texas	KYLE-28	6:30 a.m.	Warner Brothers
Washington, D.C.	WBDC-50	5:30 a.m.	Warner Brothers
Waterville, Maine	WFYW-41	6:30 a.m.	Independent
West Palm Beach, Fla.	WTCN-16	6 a.m.	Independent
Yakima, Wash.	KEBB-60	6 a.m.	Warner Brothers
Youngstown, Ohio	WFMJ-21	6 a.m.	NBC
Yuma, Ariz.	KYMA-11	6 a.m.	NBC

Labor

Chamber Calls For TEAM Vote

The U.S. Chamber of Commerce is urging quick action by the Senate on a bill to allow employers to establish employee teams to examine various workplace issues.

The measure, sponsored by Sen. Nancy Kassebaum, R-Kan., and titled the Teamwork for Employees and Management Act, is similar to a bill already passed by the House. The legislation is strongly backed by the Chamber.



Sen. Kassebaum

The bill would amend the 1935 National Labor Relations Act to let nonunion employers establish self-directed employee teams to address various workplace issues important to employees and managers.

The House and Senate measures were introduced in response to interpretations of the 1935 labor law made by the National Labor Relations Board, which administers the labor-relations statute, and by the federal courts.

The NLRB and the courts have ruled in recent years that the 1935 law makes it illegal for employee teams or committees in nonunion businesses to discuss issues such as scheduling, work assignments, health and safety matters, training, job descriptions, and work rules. The TEAM Act would overturn those rulings.

Organized labor is making defeat of the TEAM Act a top priority. President Clinton recently pledged to veto the measure if Congress approves it.

Strong grass-roots response by business is essential for Senate approval of the legislation and to let the president know the degree to which this issue is important to companies.

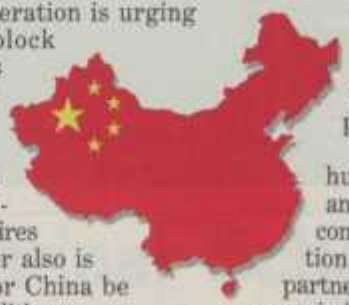
Call your senators now and urge them to support the TEAM Act (S. 295) to facilitate better employer-employee relations. Dial the Capitol switchboard at (202) 224-3121. Call the White House comment line at (202) 456-1414.

China

Trade Battle Looms

The U.S. Chamber of Commerce is gearing up for a battle in Congress over whether most-favored-nation trade status for the People's Republic of China should be renewed.

The business federation is urging lawmakers not to block extension of China's MFN status, which President Clinton was expected to renew before a June 3 deadline. The current trade status expires July 1. The Chamber also is asking that MFN for China be extended without conditions.



MFN status is routinely granted to most of the nations with which the U.S. trades. It does not confer special trade privileges. Without MFN status, however, a country's exports to the U.S. could be subject to tariff rates of more than 50 percent.

Although authority for granting—and renewing—MFN status to countries rests with the president, Congress can thwart the decision by passing legislation to deny or restrict MFN status.

Some members of Congress are threatening to deny or restrict China's trade status on the basis of human-rights abuses in China, the nation's recent belligerence toward Taiwan, its failure to implement an agreement made with the U.S. to protect intellectual-property rights, and its sales of nuclear technology to Pakistan.

While the Chamber also is concerned about some of China's recent actions, it contends that denying or restricting the country's trade status would hurt the forces in China most sympathetic to political and trade reforms.

Such sanctions also would hurt U.S. economic interests and put the U.S. at a substantial competitive disadvantage in relation to its major foreign trading partners, which are unlikely to impose similar trade restrictions.

"Extension of MFN to China is critical to U.S. business in this global economy that we are in," says Russell H. Pearson, director of international government relations for J.C. Penney Co., Inc., and chairman of the Chamber's Asia trade task force.

U.S. companies exported nearly $12 billion worth of goods and services to China in 1995, and U.S. businesses invested $1.7 billion in the country in 1994, according to figures from the U.S. Commerce Department.

Call your lawmakers and urge them to support MFN trade status for China. Dial the Capitol switchboard at (202) 224-3121.

Political Campaign



R. Bruce Josten, the U.S. Chamber's senior vice president for membership policy, talks with political consultant Mary Matalin on her weekly radio show, which is broadcast over the CBS radio network. Josten discussed the AFL-CIO's $35 million campaign to unseat pro-business members of Congress in the upcoming elections and the Chamber's efforts to counter that plan.

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The Chamber's Small Business Institute offers 35 books to help small-business managers and employees increase profits, improve job knowledge, and run a stronger, more successful company.



The 35 books provide information about marketing and sales; budgeting and finances; legal issues; human relations and communications; productivity improvement; quality and customer service; and supervision, management, and leadership.

For a list of the institute's books, which cost less than $20 each, call 1-800-835-4730. For more information about the Small Business Institute, call the Chamber's Federation Programs and Services Division at (202) 778-2401.

Business-Planning Seminars Set

Two financial-planning seminars for business owners, which can be viewed free at sites nationwide, will be presented this summer by the Edward Jones investment firm, in St. Louis.

The first, on investment planning, is set for July 31, and the second, on estate planning, is scheduled for Aug. 14. Both programs will be sent by satellite to various locations and can be viewed from noon to 1:30 p.m. Central time.

Viewing locations will include selected Edward Jones offices nationwide and state and local chambers of commerce, businesses, and government and education institutions that are part of the satellite network of the Chamber's Quality Learning Services Division.

For more information about the seminars or the location of the downlink site nearest you, call 1-800-835-4730.

Retirement Plans For Member Firms

The U.S. Chamber and Fidelity Investments will make available a package of retirement plans and services to Chamber member companies at a cost affordable for most businesses.

The products, designed primarily for businesses employing fewer than 100 workers, will include 401(k), Keogh, and SEP-IRA plans. Fidelity will provide investment management, record-keeping services, and employee-communications materials for the plans.

Additional details about the retirement-plan offer will be published in a future issue of *The Business Advocate*.

For more information about the plans and services, call the Chamber at (202) 463-5335.

Discount Available For On-Line Ads

U.S. Chamber members are eligible for a special introductory one-year rate for advertising in the BigYellow on-line shopping directory service of NYNEX Information Resources Co.

The service is on the World Wide Web portion of the Internet, the fast-growing global web of computer networks.

For more information, call toll-free 1-888-BIG-YELLOW (1-888-244-9355) and ask about the special offer for Chamber members.

Airborne Express Discounts Available

Through a special arrangement between the U.S. Chamber and Airborne Express, Chamber members can receive a discounted price on air express service to nearly anywhere in the United States and to the more than 200 other countries served by Airborne.

To obtain the discounted service, call 1-800-636-2377 and identify yourself as a U.S. Chamber member. You will be sent a free starter kit on using Airborne Express.

Workers' Comp Analysis

The *1996 Analysis Of Workers' Compensation Laws*, which contains summaries of the workers' comp laws in the 50 states, the District of Columbia, U.S. territories, and the Canadian provinces, is available from the U.S. Chamber.

It includes up-to-date information on workers' comp laws and indemnity benefit levels and charts on the various jurisdictions' income benefits, coverage, insurance, and legal requirements.

The publication is $15 for members and $25 for nonmembers. Those prices include shipping and handling. Bulk-order discounts are available. To order, write to the U.S. Chamber of Commerce, Domestic Policy Publications, 1615 H Street, N.W., Washington, D.C. 20062-2000, or call (202) 463-5509. Request publication No. 0470.

A supplement to the 1996 analysis, which details legislative changes in workers' comp laws made from the beginning of the year to July 1, will be available in September. The supplement is $8 for members and $11 for nonmembers. Advance orders for the supplement are now being taken.

Practical Resource For Small Firms



U.S. Chamber members may obtain free copies of *The Small Business Resource Guide*, a resource for entrepreneurs seeking guidance on such issues as taxes and financing, export markets, legal costs and fees, and risk management.

Additional copies of the book, produced by the Chamber's Domestic Policy Division, are $7.50; bulk-order discounts are available.

To order, call the Chamber's Small Business Center at (202) 463-5503.

Policy Briefings

The U.S. Chamber's Briefing Center designs and conducts meetings during which representatives of businesses, trade associations, and state and local chambers of commerce receive specialized presentations on public-policy issues affecting their respective organizations.

For more information or to arrange a briefing, call (202) 463-5414.

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